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THE TARIFF PROBLEM

BY

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FOURTH EDITION

With the Additional Chapter of the Second Edition and Introduction of the Third Edition

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PREFACE.

To place the industry of this country on a secure basis, and at the same time to consolidate the British Empire, is a task not yet beyond the power of a bold and constructive statesmanship. The gradual creation of a system of Imperial inter-dependence will, indeed, be the work of a generation ; and it will be an exceedingly delicate and difficult business. What we have now to do is to soberly set our faces in the right direction, and to trust to the common sense and mutual forbearance of the British peoples. That there are great risks to be run in doing anything is only an argument for those who do not recognise that there are greater risks in doing nothing.

In view of my present academic position I may be allowed to add a word of personal explanation. By upbringing and sympathies I am a Liberal. As an economist my main interest has always been in the condition

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of the working classes. But the general opinions expressed in the following chapters were formed long before I returned to England, and while I was still a teacher, first in a Canadian and then in an American university.

LLANFAIRFECHAN,
September 7, 1903.

PREFACE
TO THE SECOND EDITION.

THE opportunity has been taken to add to this second edition some observations on British Shipping and on the position of England as Entrepôt, as well as a few notes on certain points which have emerged in the course of the current discussion. In the body of the book no changes have been made except a few verbal corrections which do not affect the argument.

EDGBASTON,
December 17, 1903.

PREFACE TO THE FOURTH EDITION

Much has happened in the seventeen years since this book was written. If I were dealing now with the problem as it presents itself to-day, while my purpose would be the same—to promote alike imperial unity and English industry—I should approach the subject from somewhat different sides, and lay more emphasis on some considerations and less on others. But to indicate in every place in this book how the argument has been affected by subsequent events, and especially by the lessons of the Great War, would involve its rewriting. And I doubt whether this would be expedient, even if I could find time for it. For it seems to me we are at a stage in our national history when the moderate men of all parties can and should unite on a common commercial policy. And, to bring this about, it is well for all of us to make a fresh start on the basis

of present conditions; to avoid the use of words and phrases which have become provocative; and to deny ourselves the pleasure of imagining dialectic victories.

Re-reading the book I do not think I find in it any argument which in 1903 could not be fairly maintained, or any statistics which were not reliable and significant. I reissue it, however, now, neither as altogether adequate or appropriate for 1920, nor, on the other hand, as possessing only a certain historical interest. The general spirit and trend of the book I still think to be in the right direction; and some of the particular discussions in it may, I hope, still be useful.

EDGBASTON,
January 15, 1920.

CONTENTS.

CHAP.		PAGE
I.	STATE CONTROL IN GENERAL: ITS REMOVAL AND RESTORATION	1
II.	THE POLICY OF FREE IMPORTS: THE ARGUMENTS OF ITS ORIGINAL ADVOCATES .	21
III.	THE COMMERCIAL SITUATION TO-DAY AND ITS CAUSES	53
IV.	THE OUTLOOK UNDER THE PRESENT POLICY	83
V.	A POLICY OF INDUSTRIAL DEFENCE . .	114
VI.	A POLICY OF IMPERIAL INDEPENDENCE AND INTER-DEPENDENCE	139
VII.	THE INCIDENCE OF CORN DUTIES . .	168
VIII.	SOCIAL REFORM—PEACE AND RETRENCHMENT—WORLD POLITICS . . .	189
IX.	FOREIGN INVESTMENTS—SHIPPING—ENGLAND AS ENTREPÔT—THE YEAR 1872—EXPORTS AND PRICES—CANADA—THE FUTURE	211

LIST OF THE MORE IMPORTANT STATISTICAL TABLES IN THE TEXT.

		PAGE
1.	EXPORTS OF BRITISH PRODUCE AND MANUFACTURES, 1805—1902	56
2.	VALUE OF EXPORTS OF BRITISH PRODUCE AND MANUFACTURES PER HEAD OF POPULATION, 1854—1901	59
3.	VALUES AND QUANTITIES OF COTTON PIECE GOODS EXPORTED, 1872—1902	61
4.	EXPORTS OF COTTON YARN AND TWIST	63
5.	TEXTILE AND METAL PROPORTIONS OF EXPORTS	68
6.	EXPORT OF COAL, 1850—1900	101
7.	VALUE OF EXPORTS INCLUSIVE AND EXCLUSIVE OF COAL	102
8.	EXPORTS OF UNMANUFACTURED CLAY	105
9.	SEVEN GROWING EXPORT TRADES	106
10.	EXPORTS OF SPIRITS	111
11.	PRODUCTION AND CONSUMPTION OF GERMAN PIG-IRON	121
12.	FLUCTUATIONS OF TRADE TO COLONIES AND FOREIGN COUNTRIES	142
13.	EXPORTS TO EUROPEAN COMPETITORS AND TO ENGLISH-SPEAKING COLONIES	143
14.	PERCENTAGE OF AMERICAN WHEAT DISTRIBUTED TO THE SEVERAL COUNTRIES	171
15.	PRICES OF RYE AT DANZIG	176
16.	PRICES OF WHEAT AND BREAD, 1884—1902	178
17.	PRICE OF CORN AND PAUPERISM	185

DIAGRAMS:

	QUANTITIES OF COTTON PIECE GOODS EXPORTED	62
	COAL AND OTHER COMMODITIES EXPORTED	104

INTRODUCTION

TO THE THIRD EDITION.

THE exhaustion of the second edition of this book by the demand of the last few months is one among many indications of the growth of public interest in the subject of which it treats. For some reasons I should be glad if I could rewrite the book, and bring it completely up to date. But for such a task my university engagements leave me now no leisure; nor am I quite sure that it would be altogether wise to undertake it. The book was written at the very beginning of the fiscal controversy by one who, though an economist of that historical school which has hitherto been but scantily represented in England, and an Imperialist as the result of his experiences in Canada and the United States, was nevertheless a Liberal in his general sympathies. It was possible in the summer of 1903, before any leading statesman other than Mr. Chamberlain had pronounced himself on the problem, to write with a certain detachment from political party, It may, therefore, be better, after all, to

leave the book as it is; and to put some of the reflections suggested by the subsequent passage of years into the form of an introduction.

My starting point in 1903 was the imperial one; and I cannot but think that my contention has been fully justified by the events of the last few months. If my readers will be good enough to refer to what I have said on pp. 207—210, 254—259, they will see that my anticipations as to the effect on Canadian policy of the peopling of the agricultural North-West—in the absence of reciprocity with the United Kingdom—were, in substance, only too accurate.

The proposed reciprocity arrangement between Canada and the United States may, or may not, seriously affect in the *immediate* future the existing preference to the goods of the United Kingdom. From the schedule of articles concerned it is almost impossible to make out precisely what its effect will be in that respect; and I believe that the Board of Trade has not even yet issued an official estimate. Infinitely more important are likely to be its ultimate effects. And for a forecast of these we need not go to any tainted source, such as the Canadian or English Opposition. We need not even rely on the words, now famous, of Mr. Champ Clark, the leader of the Democratic Party in the House of Representatives:

"I am for it" [the reciprocity treaty], "because I hope to see the day when the American flag will float over every square foot of the British North American

possessions, clear to the North Pole. They are people of our blood. They speak our language. Their institutions are much like ours. They are trained in the difficult art of self-government. My judgment is that if the treaty of 1854 had never been abrogated the chances of a consolidation of these two countries would have been much greater than they are now. . . .

MR. NORRIS: . . . As I understand it, the gentleman favours this bill for at least one reason, that it will have a tendency in the end to bring Canada into the Union.

MR. CLARK, of Missouri: Yes; I have no doubt about that."[1]

Some people, apparently, find it easy to dismiss utterances like this as specimens of American humour. So let us look at the sober and deliberate statement issued by Sir Edmund Walker and a number of leading business men of Toronto, like himself life-long Canadian Liberals. Sir Edmund Walker was long the general manager, and is now the president, of the Canadian Bank of Commerce, a great institution with branches all over the Dominion, and only second in the extent of its operations to the Bank of Montreal. His annual addresses to the shareholders are commonly regarded, I believe, by Canadian business men as probably the most instructive estimates available of the contemporary economic situation. And the list of signatories includes the names of many men well known in the public life of Canada. The document is not long, and may as well be given almost in full:

[1] "Congressional Record" for February 14, 1911, p. 2624.

" We oppose ratification of the proposed reciprocity agreement with the United States of America :

* * * * *

(2) Because the present unexampled prosperity of Canada is the result of the policy which has been pursued in the development of her trade and of her natural resources. Because this has involved the expenditure of hundreds of millions of dollars upon railways, canals, steamships and other means of transportation between east and west and west and east, and the obligation to incur further great expenditures for the same purpose ; and because further development along the same lines would be seriously checked by the proposed reciprocity agreement and the benefits of the expenditures referred to would be to a great extent lost.

(3) Because it is essential to the continued national unity and development of Canada that no trade relations with any country should be agreed to by Canada on any basis which would check the growth and development of trade between the various parts of Canada with each other, or between Canada and the various parts of the Empire ; and because the proposed reciprocity agreement between Canada and the United States of America would seriously check the growth and development of this trade.

(4) Because any present benefit to any section of Canada or to any interests or individuals therein which might accrue from the proposed agreement would be more than offset by the loss and injury which would accrue to other sections and interests and individuals, and because the result to Canada as a whole would be greatly injurious.

(5) Because, as a result of the proposed agreement, the freedom of action possessed by Canada with reference to her tariffs and channels of trade would be greatly curtailed, and she would be hampered in developing her own resources in her own way and by her own people.

(6) Because, after some years of reciprocity under

the proposed agreement, the channels of Canada's trade would have become so changed that a termination of the agreement and a return by the United States to a protective tariff as against Canada would cause a disturbance of trade to an unparallelled extent; and because the risk of this should not be voluntarily undertaken by Canada.

(7) Because, to avoid such a disruption, Canada would be forced to extend the scope of the agreement so as to include manufactures and other things.

(8) Because the agreement as proposed would weaken the ties which bind Canada to the Empire; and because the unrestricted reciprocity which would naturally follow would still further weaken those ties and make it more difficult to avert political union with the United States.

(9) Because the disruption in the channels of Canada's trade which was caused by the termination of the reciprocity treaty of 1854 and the subsequent establishment of a protective tariff by the United States gave rise to a decided leaning in many minds towards annexation with the United States, and this at a time when Canada was mainly peopled by native-born Canadians and other British subjects to whom the prospect of annexation was most unwelcome; and because Canada in a comparatively few years will have millions of newcomers, a large percentage of whom will have come from foreign countries; and because, if Canada should then have to choose between disruption of her channels of trade with the United States and political union with them, the preservation of Canadian autonomy and Canadian nationality would be enormously more difficult.

(10) Believing, as we do, that Canadian nationality is now threatened with a more serious blow than any it has heretofore met with, and that all Canadians who place the interests of Canada before those of any party or section or individuals therein should at this crisis state their views openly and fearlessly, we, who

have hitherto supported the Liberal party in Canada, subscribe to this statement." [1]

Every sentence here deserves to be carefully pondered. Of course it would be useless for the Government of the United Kingdom to make any representations, so long as it abstains from the one step which can have any effect on Canadian opinion, *i.e.*, from treating Canada commercially in some way better than it treats foreign countries. Those of us in England who feel keenly the critical character of the decision which Canada may be called upon to make, must perforce keep silence and leave it to Canadians to settle for themselves. But surely such a crisis demonstrates that the policy of imperial reciprocity is no mere reactionary eccentricity: it corresponds to the absolute needs of the imperial situation.

Yet while it was the potentialities of preference as a means of imperial consolidation which first directed attention towards it, there are weighty reasons, in the economic situation of the United Kingdom itself, for entertaining the proposal. These reasons I attempted to set forth in 1903, with the aid of the statistical material then available. Although the existence of later figures would now in some places give a somewhat different turn to the argument, the reasoning rested for the most part on the consideration of *long* periods, and it is hardly affected by a few additional years. And when a man like Adolph

[1] Published in *The Globe*, and other Toronto newspapers of February 20, 1911.

Wagner, to whom all economists who care for Social Reform turn with so much respect, adjudges that these arguments have been "by no means overthrown" by my critics, I may venture to believe that they are still worthy of consideration.[1]

The fundamental fact is the present insecurity of Great Britain's economic position. There seems no doubt that the general tendency is for our exports to be decreasingly composed of "articles wholly or mainly manufactured." This is well brought out by one of Mr. Holt Schooling's series of decennial averages.

PERCENTAGE OF EXPORTS OF BRITISH AND IRISH PRODUCE AND MANUFACTURE, COMPOSED OF ARTICLES WHOLLY OR MAINLY MANUFACTURED.

1880—1889 ...	87·5	1890—1899 ...	84·5
1881—1890 ...	87·3	1891—1900 ...	83·6
1882—1891 ...	86·9	1892—1901 ...	82·9
1883—1892 ...	86·6	1893—1902 ...	82·3
1884—1893 ...	86·3	1894—1903 ...	81·8
1885—1894 ...	86·0	1895—1904 ...	81·5
1886—1895 ...	85·8	1896—1905 ...	81·2
1887—1896 ...	85·6	1897—1906 ...	80·8
1888—1897 ...	85·3	1898—1907 ...	80·4[2]
1889—1898 ...	85·0		

[1] "Als Brite wäre ich nicht im geringsten im Zweifal, mich auf die Seite von Chamberlain zu stellen, mindestens so weit wie es auch Ashley thut, dessen Beweisführungen und Stellungnahme in der Frage von seinen britischen theoretischen Fachgenossen und von Practikern m.E. in keiner Weise widerlegt und als falsch erwiesen werden:" Preface, p. viii., by Wagner (end of August, 1905), to Schwab, *Chamberlains Handelspolitik*.

[2] See the whole Table 27, in John Holt Schooling, "The British Trade Book," third issue, 1908, p. 46.

It seems equally clear that in our trade with foreign countries an increasing proportion of our total exports consists of coal, as is shown by this other set of figures calculated by Mr. Schooling:

PERCENTAGE OF EXPORTS TO FOREIGN COUNTRIES CONSISTING OF COAL.

1880—1889	...	6·0	1890—1899	...	10·1
1881—1890	...	6·5	1891—1900	...	11·2
1882—1891	...	7·1	1892—1901	...	11·9
1883—1892	...	7·5	1893—1902	...	12·4
1884—1893	...	7·8	1894—1903	...	13·0
1885—1894	...	8·3	1895—1904	...	13·2
1886—1895	...	8·6	1896—1905	...	13·3
1887—1896	...	8·8	1897—1906	...	13·5
1888—1897	...	9·1	1898—1907	...	13·9[1]
1889—1898	...	9·6			

It used, indeed, to be said that, whatever might become of our manufactures, our shipping and our entrepôt trade would continue to flourish under the existing policy. Yet it needs little inquiry to discover that we cannot be quite so confident. Take shipping. The secretary of the Liverpool Steamship Owners' Association—himself, I understand, free from all sympathy with Tariff Reform—calculated in 1903 that, of the total tonnage employed in the world, the British proportion fell from 57 per cent. in 1891 and 1896 to 50 per cent. in 1901 (see *infra*, p. 216). He has more recently calculated that " of the total tonnage employed in the world, British tonnage represented 52 per cent.

[1] See the whole Table 20, *ibid*,, p. 37.

in 1894 and 44 per cent. in 1906." And he adds these significant words:

"The shipping belonging to the countries in which the ports were situated maintained its proportion of the total tonnage employed, namely, 20 per cent., whilst the shipping of other countries, that is *shipping in direct competition with us as the carriers of the world*, increased their percentage from 28 to 36 per cent." [1]

These being the proportions in the world at large, we naturally find them more or less reproduced in the several directions of our trade. We knew, for instance, eight years ago that the British percentage of the tonnage of merchant shipping passing through the Suez Canal was already declining (see *infra*, p. 227): we have since learnt that the decline has subsequently been very rapid:

"The British tonnage passing through the canal increased (1894—1906) from 6 to 8 million tons net, and foreign tonnage from 2 to 6 millions net. Of the total tonnage passing through the canal, British tonnage represented 75 per cent. in 1894, and 57 per cent. in 1906." [2]

It is true that tonnage is no longer an exact measure of carrying capacity; yet the reflection brings but little comfort, since, according to the careful calculation of the same authority:

"From 1895 to 1906, I estimate that the cargo-carrying capacity of the vessels engaged in the foreign

[1] "Report of the Secretary (Mr. Norman Hill) to the Liverpool Steamship Owners' Association," October 1, 1909, p. 8.

[2] *Ibid.*

trades of the world increased from 10 to 22 million tons in the case of foreign shipping, and from 13 to 22 million tons in the case of British shipping," *i.e.*, 120 per cent. in one case, and a little over 69 per cent. in the other."

And as to the entrepôt trade,—those branches of business which used to be, and still are in a large measure, "transacted here owing to England's position as a middleman's centre for various foreign countries,"[1]—the progress of events since 1903 has but confirmed the proposition that a country will continue to be the chief market for materials only so long as it is the chief place of their manufacture. "The emancipation of the foreigner," to use Lord Goschen's phrase, "from much tribute for work done for him with which he now dispenses" continues steadily to go on. In 1903 I cited the figures of Mr. Coghlan, the highest authority on Australian statistics, to the effect that the proportion of Australian wool shipped to the United Kingdom fell from 97 per cent. in 1881 to 82 per cent. in 1891 and 71 per cent. in 1901 (see *infra*, p. 231). I do not know whether the figures more recently presented by the Government statistician for the Commonwealth are exactly comparable with Mr. Coghlan's; but the figures given by that authority for the values of exports to the United Kingdom during the five years 1904—1908 work out at only some

[1] The phrase of Lord Goschen, "Essays" (1905), p. 201.

47 per cent.[1] And the Government statistician remarks elsewhere :

" Notwithstanding an increase of 34 per cent. in the actual value of exports to the United Kingdom during the year 1908 as compared with the annual average of the period 1887—1891, the proportion of the total exports despatched to the United Kingdom has fallen from 74·74 per cent. in the earlier period to 45·83 per cent. in the year 1908. This decrease is, to some extent, undoubtedly due to the fact that wool and other commodities which were formerly despatched to the United Kingdom, and distributed from that centre, are now to a greater extent shipped direct to continental ports." [2]

The direction in which it would be necessary, in view of the experience of the last eight years, to somewhat modify the language of the first edition of this book, is in relation to the competition in our home market of those foreign manufacturers whose market is wider than ours, and who may therefore be in a position to manufacture on a larger scale and at less cost. The pressure has not made itself felt quite so quickly as might have been fairly expected; and the reason is deserving of careful attention. It is to be found in the successful formation in the United Kingdom, during the last decade, of " Trusts " of precisely the same general character as those we had been for some time familiar with in America and Germany. This is the more

[1] " Official Year Book of the Commonwealth of Australia," No. 3, 1910, p. 357.

[2] *Ibid.*, p. 605.

interesting because it has been a widely entertained opinion in this country that Free Trade is a sufficient guarantee of the permanence of unrestricted competition. We are fortunate in having had provided for us a careful study of the English trust movement by a foreign economist, Professor Levy, who, if he has any prejudices at all, has them in the free trade direction of his eloquent master, Professor Brentano. Professor Levy shows that geographical, physical and technical conditions are even more important in relation to the possibilities of combination than the character of the import duties; and that, as soon as in any industry the unit of production reaches a certain size, combination takes place almost inevitably. But a well-organised combination is not only in a stronger position to meet foreign competition by the ordinary weapon of price; it may, temporarily at any rate, be so strong as to induce foreign trusts to enter into an agreement to divide the market. This is what is suspected to have occurred in more than one branch of the steel trade; in one branch, certainly, there seems to be no doubt as to the facts. As early as 1883 an International Steel Rail Syndicate was formed. It repeatedly broke down; until the number of concerns engaged in the business (18—20 in 1880) had been so reduced (9 in 1906) as to facilitate a more secure combination among the English makers. The International Syndicate could then get a firmer grip upon the world market:

" In 1905 the United States, Great Britain, Germany, Belgium and France had become members. In May, 1907, the contract was renewed for a period of five years. The combination was afterwards joined by Russia.

Great Britain—all of whose works belong to the syndicate—enjoys, by means of this agreement, complete security from the competition of its most important foreign rivals. The home market was handed over to the domestic producers. At the same time there was a division of the export market. Such a state of affairs must naturally have a considerable influence on English prices. When in 1907 steel rails rose in England to £6 15*s.* and £7, though they had cost only £4 to £5 three years before, and when at the same time the domestic price of the American product was only about £5 12*s.*, it was driven in upon many an Englishman that, in spite of Free Trade, English prices were no longer limited by the supply from other exporting countries. For although the conditions, so far as prices were concerned, were obviously favourable for the export of American steel rails to England, and although considerable quantities of rails were actually exported from the United States in 1907, no American rails got to the United Kingdom. This result stands in sharp contrast with the conditions which prevailed in 1900 and 1901. Then also the price of English rails had shot above the American. On an average of the year it was, in American money, $36.01 in Great Britain and only $32.29 in the United States. Then, however, the American export statistics indicated a rapid and unwonted export of rails to Great Britain. In November, 1900, an English trade journal (*Ryland's Circular*) wrote as follows: ' For some time past the British Steel Rail Makers' Association has kept prices up at £7 to £7 5*s.* per ton for ordinary heavy sections; but the Americans have recently been underselling them, and now the home makers have relaxed their conditions and given freedom to makers to lower their prices at once. This has been

immediately done, and some makers are quoting as low as £6 per ton net f.o.b., for heavy sections. *These prices will shut out American competition.*'

In 1907, on the contrary, when the difference between English and American prices was even wider than in 1900, and the United States exported, as before, about 300,000 tons, only the insignificant amount of 474 tons reached the whole of Europe. There are here very clear indications of the arrangements of the International Syndicate." [1]

But though international syndicates of this kind may possess a certain vitality, it is evident that they will survive only so long as the more powerful members think it their interest to respect " the sphere of influence " of the weaker members. The general reasoning, therefore, of the first edition of this book as to the fundamental factors of competitive strength still remains valid in relation to ultimate tendencies.

A remarkable commentary on the international steel situation has just been published by one of the great technical journals, *The Engineer*. We are told that

" the negotiations which have been going on for several months with a view to bringing the world's export trade under international syndicate control have reached an advanced stage, and will shortly culminate in what may be described as the most representative commercial conference ever held. Many of the leading iron and steel producers of the world will be

[1] " Monopole Kartelle und Trusts . . . dargestellt an der Entwicklung in Grossbritannien." By Hermann Levy (Professor at the University of Heidelberg and Director of the *Handelshochschule* at Munich), p. 250.

represented at the forthcoming conference in Belgium ; and efforts will be made to organise and allot an exportation business approaching 14,000,000 tons a year, and valued at not less than £120,000,000."

The writer of the leading article justly remarks that " the issues involved are of high importance, nationally and internationally." Unfortunately

" on certain notable occasions in recent years, when international agreements covering specific articles—steel rails, for instance—have been drawn up, the British case has not been stated with full weight and force."

Accordingly he proceeds to set forth " the British case for the biggest share of the world's export trade in iron and steel," for the benefit of the English negotiators. And what is the consideration which he puts in the forefront ? It is simply that the diminution of our trade will hurt us more than it will hurt any of our great rivals.

" It should be clearly recognised that, so far as the export steel trade is concerned, we occupy an absolutely unique position. Consider. We are, above all things, a manufacturing nation. We depend more upon manufactures, and less upon agriculture, than any other first-class nation ; and chief among the world's manufactures are now those of iron and steel. Next to agriculture, the iron group of industries is the most important. . . . And so it is in America and Germany. But the iron trade is of more importance to this country than to any other. On the export side it is of far more importance to us than to any of our contemporaries. We depend far more largely upon imports of agricultural produce than they do ; therefore we depend far more largely upon exports of manufactures, such as those of iron and steel, than they do. . . .

It comes to this, then, that *whether* the situation is viewed from the standpoint of economic necessity—national dependence upon exports of manufactures to balance imports of food—*or* of manufacturing ability, or shipping facilities, or financial interests abroad, or extent of colonial possessions, it is clear that Great Britain is *entitled* to by far the largest share of the world's export trade in steel. We trust that our representatives at the forthcoming conference will assert British *rights* in no half-hearted manner." [1]

But what an unsatisfactory brief, especially when one reflects that it is printed in a famous British journal which is perfectly well known in American and German steel-manufacturing circles. That a large export trade is an "economic necessity" for us is certainly a reason why the British negotiators should try to get as large a share as they can. But it is no reason whatever why the representatives of other countries should concede the share our people ask. The foreign combinations will yield to us only what our competitive strength may make it commercially expedient to allow to us for the time being. And this depends on the fighting strength of our manufacturers, on their ability to supply the market quickly and, above all, cheaply.

So much then for the general imperial and for the general economic considerations which point towards a modification of our present tariff policy. It is worth adding that, during the eight years that have elapsed since the first edition, the general atmosphere of public opinion has become

[1] *The Engineer*, April 28, 1911, p. 440. (*My* italics.)

in various ways distinctly more favourable to a reconsideration of our commercial system. Governmental control of internal economic conditions has entered, with general approval, upon fields of action extending far beyond the Factory Acts that the Free Traders of 1846 protested against. It now, in the case of coal miners, directly limits the hours of labour of adult men; it proposes even in some industries, by means of the new wages boards, to regulate the rate of wages. In each of these instances the concern of the State has been with "the producers." An essential principle of the Economics which the history of modern thought knows as "Liberal" has, indeed, as M. Levasseur has recently reminded us, been its primary interest in "the consumer."[1] And it is curious to observe the way in which the consumer was put in the foreground, quite in the old fashion, in that successful attempt of our Foreign Secretary to run with the hare and hunt with the hounds which led to the renewal of the Sugar Convention in 1907.[2] But now the

[1] "Une différence essentielle entre la doctrine libérale et la doctrine protectionniste est que la première considère surtout le consommateur auquel elle cherche à procurer la jouissance des biens aux prix du moindre effort et que la seconde se préoccupe surtout de garantir au producteur un gain estimé suffisant," "Questions ouvrières et industrielles, en France sous la troisième république," par E. Levasseur, Membre de l'Institut, Administrateur du Collège de France (1907), p. 273.

[2] "His Majesty's Government have felt themselves bound to give the greatest weight to the interests of *consumers* and

customary point of view of the legislator is evidently changing. It is, for instance, no longer permitted to foreign ships to bring goods or passengers to this country in what is presumably the cheapest way; *i.e.*, we have reverted to the essential principle of the old navigation laws, that it is well to risk an increase of freight charges if thereby we can strengthen our mercantile navy.[1] Patented goods can now no longer be supplied to English consumers by foreign manufacturers from the presumably cheaper places of production resorted to before the recent Patents Act. This Act is the more significant for two reasons. One is that, in spite of the old Free Trade doctrine that all Government action can do is to direct a given amount of capital from one industry to another, this Act has apparently led to a considerable

producers in the United Kingdom and the British Colonies. . . . . His Majesty's Government have come to the conclusion that the limitation of the sources from which sugar may enter the United Kingdom is . . . incompatible with the interests of British *consumers* and sugar-using manufacturers," &c. Despatch of Sir Edward Grey to His Majesty's Minister at Brussels, June 1, 1907; Cd. 3577.

[1] The Merchant Shipping Act of 1906 "brings foreign ships, whilst they are within any port in the United Kingdom, under the British Load Line, Grain Cargo, and Life Saving Appliances Regulations . . . It enforces the Passenger Ship Regulations on foreign vessels carrying passengers to and from the United Kingdom." Its effect is "to place the British shipowner more on an equality with his foreign competitors:" "Annual Report to the Liverpool Steamship Owners' Association," 1907, pp. 11, 12.

influx of foreign capital to England.[1] The other is that it did, as a matter of fact, create in certain circles in Germany and the United States just that sort of annoyance—passing, let us hope—that we are so often warned will be aroused by the imposition of custom duties.[2] And to these larger examples we may add a smaller one in the case of matches. The English consumer is no longer allowed to use a particular sort of cheap foreign match: it is excluded from our shores by international agreement.

No one now, I suppose, in England is quite so governed by abstract principles as to maintain that the acceptance of any one sort of Government

[1] "In reply to questions in the House of Commons at the close of 1909 the President of the Board of Trade made a general statement as to the satisfactory working of the Act, and in subsequent public allusions to the results of the compulsory working clause it was stated that some 50 firms had commenced or were about to commence work under the Act, and that the new factories involved a total outlay of some £800,000. It was hoped that employment would, in this connexion, be found for 7,000 additional men, and that the wages paid to them would total something like £8,000 per week." *The Times*, March 23, 1911.

This is without reckoning the orders placed with British manufacturers by foreign patentees who do not expect sufficient trade to justify them in erecting their own factories in England.

[2] Those who would like to see an outsider's view of this episode may be referred to the article by Felix Damme: "Der gegenwärtige Umschwung wirtschaftlicher Auschauungen in England und das Britische Patent-gesetz von 1907," in Schmoller's "Jahrbuch für Gesetzgebung," &c., 1909, 3rd part, p. 231.

intervention necessarily involves the acceptance of every other sort, though this is by no means an obsolete opinion among "orthodox" French economists.[1] Indeed it is a proposition sometimes announced in England with a great show of philosophy that to our age has been reserved the discovery of the possibility of combining Government control of industry with freedom of commerce. Time alone will show whether this is so or no. My own impression is that, as the simple policy of *laissez faire* all round is progressively abandoned, the ordinary citizen will come to feel less repugnance to the State regulation of trade.

And with the progress of time certain prejudices which have stood in the way are losing their force. We now know, for instance, that though average wages are lower in Germany than in England, in consequence of the later period at which Germany entered upon the modern industrial stage, they have gone up considerably during the period of Protection; gone up certainly more rapidly than the cost of living;[2] and that "the actual numbers of the unemployed and the degree of poverty experienced . . . have been prevented from reaching

[1] "L'interventionnisme n'a pas seulement un rôle de tutelle populaire; le protectionnisme douanier est une forme de l'interventionnisme:" M. Levasseur, *u.s.*, p. 373; and *passim*.

[2] See the article in the *Times*, of May 5, 1910, on "Wages and Prices in Germany," based on the reports of the German Socialist trade unions.

the same acute stage as obtains in this country."[1] We now know that, high as may be the cost of living in the United States as a result of Protection, the rate of wages is still higher as compared with England.[2] Neither of these facts, indeed, is in itself, as barely stated, a reason for Tariff Reform ; they are, however, reasons for considering the

[1] " A Report of an Inquiry into the Methods adopted in Germany for Dealing with Unemployment," presented to the Labour Party by George N. Barnes, M.P., and Arthur Henderson, M.P., 28, Victoria Street, S.W., 1907, p. 16. In the original the conclusion is limited to " the places visited " and " towns of similar size in this country." But as the places visited were Düsseldorf, Cologne, Berlin, Frankfort and Strassburg, the briefer form in the text seems to give the meaning.

[2] " The food of the average English family would cost about 38 per cent. more in the United States, and the rent would be as 207 : 100. The cost of food and rent combined (allotting weights of four and one respectively, these weights being those derived from the British budgets) would therefore be 52 per cent. greater in the United States than in England and Wales ; but these heavier relative charges on working-class income have been accompanied by weekly wages in American towns as indicated by the three trade groups—building, engineering and printing —which are as 230 : 100. Thus, according to this ratio, the money earnings of the workman in the United States are rather more than $2\frac{1}{4}$ times as great as in England and Wales, and, since there is no proof that employment is more intermittent in the United States than in this country, a much larger margin is available, even when allowance has been made for the increased expenditure on food and rent." " Report of the Board of Trade Enquiry into the Cost of Living in American Towns," 1911, Cd. 5609, p. lxxv.

English problem without being disconcerted by unsubstantial foreign bogies.

Another misconception that experience has removed is that Canadian preference has been of no real value to the Mother Country. The language of Mr. Lloyd George at the Colonial Conference of 1907 has put its real services to English trade beyond the range of controversy :

" Let me express for the Board of Trade, whose duty it is to watch carefully all that affects our trade in all parts of the world, our appreciation of the enormous advantage conferred upon the British manufacturer by the preference given to him in the colonial markets by recent tariff adjustments. The Canadian preferential tariff has produced a marked effect on our export trade to Canada. . . . It has undoubtedly stimulated trade between the two countries. The South African and the New Zealand preferential tariffs have not yet been put to the test by much actual experience ; but I cannot for a moment doubt that in some measure the happy results which have ensued from Canadian preference will be repeated in these cases. The same observation of course applies to Australia ; and Great Britain feels, and ought to feel, grateful, not merely for the actual concessions which have been proposed, but even more for the spirit of comradeship—and I think I may even say of affection —which has inspired this new policy." [1]

It is Lancashire, whose economic interests caused this country to adopt Free Trade in 1846,

[1] " Colonial Conference, 1907 ; Minutes of Proceedings " (Cd. 3523), p. 286. The whole subject is carefully examined in the two " Reports of H.M.'s Trade Commissioners for Canada " (Mr. Richard Grigg), 1907 (Cd. 3868), and 1911 (Cd. 5591).

that now, as everyone knows, stands in the way of any modification of the present system. But, as if by some fatality, it is precisely the cotton industry of Lancashire which, during recent years, has exhibited before the eyes of a surprised country the dangers to which an industry may be exposed which is still conducted, on its commercial side, on *laissez faire* lines. Its policy of always buying in the cheapest market has made it so dependent on American supplies of cotton that, from time to time, and with increasing severity in the last few years, it suffers from a ruinously high price of the raw material, heightened now usually by a temporary American corner. There is then no other resource than for the cotton industry to go on short time, with all that that means of widespread distress, in order to break prices by reducing the demand. A deputation of manufacturers next goes to the Secretary of State for India, and petitions for action on the part of the Indian Government, involving no small expenditure, in order to improve and increase the supply from India. For its trouble, it receives an exposition from the Indian Secretary, the biographer of Cobden, of the great principle that the one thing that can be relied upon to increase the area of cotton growing is simply "the stimulus of remunerative prices;"[1] though there is no more security now than there was after the cotton famine, that, when the American crop is

[1] "Official Report of the Reception," &c. (Manchester: Falkner, 1910), p. 20.

abundant and cheap, the Lancashire manufacturer will not throw over the Hindoo cultivator.

A period then follows, may be, of low American prices ; and Lancashire is all at once so prosperous that the people's savings flow in as " loan capital " to finance a number of new spinning mills. In a year or two there is over-production and low prices of yarn and another outcry ; and now Sir Charles Macara, the champion of Free Trade principles on innumerable occasions, actually proposes that freedom of investment shall be interfered with by legislation.[1]

Meantime, no sooner does the English Government, advised by the biographer of Cobden, and no doubt wisely, increase the representative element in the Legislative Council of India than the native members, with one accord, make an attack on the cotton excise duty, which no amount of explanation can make them believe was not put on to satisfy the demands of Lancashire.[2]

Under these circumstances it is not surprising

[1] It is difficult to see what other meaning to attach to Sir Charles Macara's utterances, reported in the newspapers of June, 1909 : " The evil of undue expansion will recur during the next period of revived trade unless some drastic step be taken by Parliament to amend the Limited Liability Acts in a way which will impose stricter obligations upon company promoters, who, as things are at present, have too many opportunities of floating mills on an unsound financial basis, that is to say, an excessive *amount of loan capital* in proportion to share capital paid up."

[2] See the report of proceedings in the English daily papers of March 10, 1911.

that a feeling that some change may after all be expedient in our fiscal policy, is gradually soaking into the general subconsciousness. After a Royal Commission, presided over by so capable a Free Trader as Lord Balfour of Burleigh, has recommended reciprocity between the West Indies and Canada, reciprocity between the Mother Country and the Dominions inevitably seems to the ordinary citizen to enter more visibly within the range of practical politics. Moreover, it is suspected by a good many observers that the fact that Free Trade in this country is no longer positively secure, has been of considerable use to our representatives in recent commercial negotiations with France and Japan. And when even a prominent member of a Free Trade Ministry cannot deny himself the use of this weapon, and distinctly warns the French diplomatists that, after all, retaliation is not absolutely impossible, the public becomes accustomed to the idea of actually resorting to a tariff.

I must confess that on this point I am conscious of a certain development in my own position. I am myself more sympathetic towards the plan of a low general tariff, as a basis both for preference and for negotiation, than I was eight years ago. The fear that thereby certain sweated industries may be undesirably protected (*infra*, p. 134), has been considerably lessened by recent legislation as to wages boards, and by the tightening-up of the fair wages clause in public contracts.

The delay in seriously taking in hand the task of adapting our tariff policy to present-day needs has had perhaps certain advantages. Certainly our governmental machinery is now better fitted to deal with the scientific and executive details of such an undertaking. The Board of Trade, for instance, has been adding to its departments and strengthening its staff; its reports on subjects in any way touching upon commercial policy have become both more complete and more cautious. The Board of Trade, again, is now in closer touch than it used to be with what ought to be its eyes and ears, the consular service; and the consular service itself is in slow process of reform. By the appointment of Trade Commissioners in the self-governing Dominions, the Board has put itself in a position to follow, promptly and continuously, the evolution of business conditions in the Daughter States. And, finally, by the appointment of the Advisory Committee of business men on Commercial Intelligence, it has created a body which, in spite of its modest and restricted functions to-day, is capable of growing into a real advisory council for the trade of the empire.

But when the British public has at last made up its mind to seize the opportunity presented by the preferential overtures of the Dominions; when it has, bit by bit, created the necessary machinery for deliberation and negotiation; will the opportunity still be waiting? The British Empire would not be the first that has missed its chance.

May 6, 1911.

THE TARIFF PROBLEM.

CHAPTER I.

STATE CONTROL IN GENERAL: ITS REMOVAL AND RESTORATION.

THE Repeal of the Corn Laws in 1846 marked the culmination in England of a current of public opinion of far wider range than fiscal policy. It was the most signal triumph of the movement towards political and industrial individualism; towards the removal of restraint; towards what its critics called Atomism or Cosmopolitanism; towards what its friends called the System of Natural Liberty. It is difficult to characterise it without seeming either to eulogise or to condemn it: for almost all the available designations beg the question. To speak of it as the demand for "freedom," for the cessation of governmental "interference," commits us to preliminary approbation; just as it is to damn its programme in advance to describe it as "Anarchy *plus* the Constable." Perhaps the most colourless description of its purpose is "the removal of control"—primarily, of course, of State control. The only

value of such a phrase, however, is to enable us for a moment to view the events in question without embarrassing prepossessions.

For it is not my purpose to deny that the movement had a very large measure of justification. However we may explain it, the old system of governmental regulation of trade and industry had certainly got out of touch with the urgent needs of the time: it hampered the expansion of human activities; more room was needed everywhere for individual enterprise. And hence the series of measures for the removal of restriction, from the Repeal of the Elizabethan Statute of Apprentices in 1814 to the Repeal of the Corn Laws thirty-two years later, may well be regarded as inevitable and salutary, however much we may regret that the legislators of the time saw only one side of the problem with which they had to deal. What I am now concerned to point out is, that in the minds of the typical men of the movement the liberating efforts in all their several directions hung together, and were expressions of the same conscious or unconscious social philosophy.

That this was so with the political thinkers by profession is apparent on the face of their writings. It was the outcome of that belief in Nature which was their working religious creed—of a Nature which (speaking largely and broadly) did all things well if left alone; and which was to be seen at work in the free play of individual self-interest,

but not in the conscious policy of statesmen. To Adam Smith, the prophet of the movement, the "obvious and simple system of natural liberty" which would "establish itself of its own accord" when "all systems of preference and restraint" were completely taken away, was one in which "every man is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man or order of men."[1] These principles were brought out most clearly in relation to commerce; but they were understood by Adam Smith to apply just as much to labour:

"The property which every man has in his own labour is the most sacred and inviolable of all property. The patrimony of a poor man lies in the strength and dexterity of his hands; and to hinder him from employing this strength and dexterity in what manner he thinks proper without injury to his neighbour is a plain violation of this most sacred property. It is a manifest encroachment upon the just liberty both of the workman and of those who might be disposed to employ him. To judge whether he is fit to be employed may surely be trusted to the discretion of the employers whose interest it so much concerns. The affected anxiety of the lawgiver lest they should employ an improper person is evidently as impertinent as it is oppressive."[2]

As to the results of this unrestrained pursuit of self-interest, Adam Smith was whole-heartedly

[1] "Wealth of Nations," Bk. iv., ch. ix. (ed. Th. Rogers, ii. 272).

[2] *Ibid.*, Bk. i., ch. x. (i. 128).

optimistic. Speaking of the employment of capital, for instance, he unhesitatingly affirms that the study by every individual of his own advantage "naturally, or rather necessarily, leads him to prefer that employment which is most advantageous to society"; and he puts his thought in a theistic form when he declares that "by directing industry in such a manner as its produce may be of greatest value, he is in this, as in many other cases, *led by an invisible hand* to promote an end which was no part of his intention."[1] This was no merely rhetorical encomium of a particular commercial policy. It indicates an essential part of his moral philosophy. Nature seemed to him, as he elsewhere explains, "on all occasions to have intended the happiness and perfection of the species."[2] Yet "the economy of Nature" has not entrusted the attainment of its "favourite ends" "to human reason," but "has directed us to the greater part of these by original and immediate instincts . . . without any consideration of their tendency towards those beneficent ends which the great Director of Nature intended to produce by them."[3] And he does not hesitate to draw the conclusion that even what he calls the "selfishness and rapacity of the rich" is overruled. Those who work for them "derive from their luxury and caprice that share of the necessaries of life which

[1] "Wealth of Nations," Bk. iv., ch. ii. (ii. 26, 28).

[2] "Theory of Moral Sentiments," Part ii., sec. iii., ch. iii.

[3] *Ibid.* Note to Part ii., sec. i., ch. v.

they would in vain have expected from their humanity or their justice." The rich, "though they mean only their own conveniency, though the sole end which they propose be the gratification of their own vain and insatiable desires," are also "*led by an invisible hand;* and without intending, without knowing it, advance the interest of society."[1]

The practical politicians who went so far to realise Adam Smith's ideal in the seventy years that followed, were by no means all of them conscious adherents of his social and moral philosophy as a whole. Some of them, moreover, were in favour of this or that piece of State action, just as Smith was himself; and for those who will be content to judge by isolated expressions or proposals, it would be as easy to acquit them of what the Germans call "Smithianism" as it would be to acquit Smith himself. But there can be no reasonable doubt as to Smith's general attitude; and, in like manner, there can be no doubt that it was shared by those who were so fond, in the first half of the nineteenth century, of invoking his authority. According to Cobden, for instance, the opinions of Adam Smith were "recognised as sound and indisputable philosophy all over the world;"[2] and the passage which I have quoted above, about the sacred and inviolable property which every man has in his own labour,

[1] "Theory of Moral Sentiments," Part iv., ch. i.

[2] Speech of December 11, 1844.

did not fail to figure in the Anti-Corn Law campaigns.[1]

Of other theoretical exponents of the creed, it will be sufficient to mention the brilliant figure which stands so appropriately at the end of the movement against State control—Frédéric Bastiat. This "talented and excellent and able friend" of Cobden[2] became, as it were, economist in ordinary to the Free Trade party and the Cobden Club.[3] And, indeed, his satires were lively refutations of the cruder and more immediately selfish forms of protectionism, and his "Petition of the Candle-makers against the Sun," for instance, was too good a piece of controversial literature to be left unused. To-day his writings are being once more resorted to for "witty" arguments by the opponents of fiscal change. But with Bastiat, as with Adam Smith, freedom of trade was but one part of the complete individual liberty which was his social ideal. Surpassing Smith in his optimism, he maintained—to use Professor Marshall's[4] account of his teaching—"the extravagant doctrine that the 'natural' organisation of society under the influence of competition is the best not

[1] *e.g.*, Speech of October 13, 1843.

[2] Speech of January 27, 1848.

[3] It may be enough to refer to the description of him by Thorold Rogers (the editor of Cobden and Bright's speeches) as "the great French economist" (Preface to his "Manual of Political Economy"), and to the edition of his "Sophisms," published by the Cobden Club.

[4] "Principles of Economics," i. 64 n.

only that can be practically effected but even that can be theoretically conceived." It only needed the free play of private interests to produce social "harmony"; individual competition was "natural," all limitation of it "artificial"; and the "State" to Bastiat was nothing but "the great fiction by means of which everybody tries to live at the expense of everybody else."[1]

It would not be just to ascribe to men like Cobden and Bright the narrow consistency of Bastiat in all its rigour. They might be glad of his powerful assistance for their particular purpose and care but little for his denunciation of contemporary French socialism. His name is mentioned here only in order to illustrate the association, in its chief literary advocates, of Free Trade with State inaction in every other direction. And when we find practical politicians who turned to Adam Smith and Bastiat for the most authoritative statement of the Free Trade position also objecting strenuously to any "interference" by the State or any other external power with individual "liberty," we cannot but feel that this was no chance or accidental thing; all their political action may be fairly interpreted as the outcome of the same general principle.

It would be easy to illustrate this proposition from the industrial legislation of the first half of the nineteenth century—from the time when in 1811 a

[1] "Sophismes Economiques," in Foville, "Œuvres Choisis," p. 94.

Select Committee of the House of Commons reported against the enforcement of the Elizabethan legislation in protection of labour on the ground that "no interference of the Legislature with the freedom of trade, or with the perfect liberty of every individual to dispose of his time and of his labour in the way and on the terms which he may judge most conducive to his own interest, can take place without violating general principles of the first importance to the prosperity and happiness of the community." But it will be sufficient to call attention to the history of Factory Legislation. Speaking generally and broadly, it is true to say that the champions of Free Trade were the consistent opponents of the legislative limitation of the hours of labour. Cobden, the kindliest and largest-hearted of them all, argued that such restrictions were an interference with the freedom of labour; that they could not but extend from spinners and weavers "to the thousand other mechanical trades"; and that to admit the right of the Government to intervene was to return in principle to the feudal ages. His specifics for all the evils to which the working classes were exposed were the completely individualistic ones of thrift and emigration.

"I would advise the working classes to make themselves free of the labour market of the world, and this they can do by accumulating £20 each, which will give them the command of the only market in which labour is at a higher rate than in England—I mean that of the United States."[1]

[1] *Cf.* Morley's "Life of Cobden," ch. v.

This was in 1836. In 1847 John Bright "felt compelled," he said, to "give the motion for the second reading" of the Ten Hours Bill his "most strenuous opposition"; "believing as he did in his heart that the proposition was most injurious and destructive to the best interests of the country,—believing that it was contrary to all principles of sound legislation,—that it was a delusion practised upon the working classes,—that it was advocated by those who had no knowledge of the economy of manufactures,—believing that it was one of the worst measures ever passed in the shape of an Act of the Legislature; and that, if it were now made law, the necessities of trade and the demands alike of the workmen and of the masters would compel them to retrace the steps they had taken." In the course of the same debates, Joseph Hume, whose speeches in favour of Free Trade have recently and justly been thought worthy of republication, categorically set forth "the principles of political economy," and nobody disputed their right to the name—viz., "that masters and men should be allowed to make what arrangements they pleased between themselves, both with regard to the length of hours and the rate of wages; and that Government should interfere as little as possible, except in every instance to remove prohibitions and protections."[1]

[1] Quoted by Macrosty, "Trusts and the State," p. 93.

It is not necessary to accumulate evidence from the utterances of particular leaders. Anyone who cares to realise the spirit in which the Manchester party received the proposals for factory reform has but to turn to Miss Martineau's "History of the Thirty Years' Peace."[1] It is the fashion nowadays to pooh-pooh Miss Martineau's "Tales in Political Economy": they then enjoyed high esteem in Free Trade circles; and her right to speak as the voice of Political Economy it occurred to nobody then to question. Her "History" appeared in 1850, and it ends with the triumph of the Free Trade cause, whose career it sympathetically and enthusiastically describes. It cannot be doubted that she accurately describes the feelings of what she calls "the manufacturing interest in the House." Speaking of the Factory Bill of 1843, she tells us that "Lord Ashley, it need not be said, was disliked and slightly regarded by the manufacturing interest as a man who meddled with what he did not understand, and *who strove to set aside the great natural laws of society*, for the sake of favouring a class who were, above all others of their rank, able to take care of themselves. One anecdote," she says, "will suffice to indicate the state of feeling which must have existed between Lord Ashley and the Economist section of the House" —this latter synonym for the manufacturing interest is very significant. The anecdote turns upon the fact that a certain letter addressed to

[1] Bk. vi., ch. vii.

Lord Ashley which was thought to cast discredit upon his informants was sent to the office of the Anti-Corn Law League, and led to a debate in the Council of the League as to whether Mr. Hume or Mr. Villiers should not produce the letter in the House. The office of the League was evidently the natural place for malicious persons to send evidence to, if it could be used against the champion of the Factory Acts.

We have fortunately got beyond the recriminations of Miss Martineau's palmy days. We can recognise that Cobden and Shaftesbury were both honourable men, who each did a great service to his country, though neither could understand the other. We need not accuse either the factory owners who followed the one or the country gentlemen who followed the other of being blinded by self-interest more than is the ordinary lot of mankind. It is enough to say that each side was enabled by circumstances to see one side, but one side only, of "the condition of England question." But the point to observe is that in this matter of factory legislation the party of Lord Shaftesbury has been victorious to a remarkable degree. The old system of regulation of industry by the State had been completely swept away; there has since been built up step by step a far more complicated system of State control. How far it has gone let Mr. Morley, the biographer of Cobden, remind us:

"This legislation . . . was an exertion of the power of the State in its strongest form, definitely

limiting in the interest of the labourer the administration of capital. The Act of 1844 was only a rudimentary step in this direction. In 1847 the Ten Hours Bill became law. . . . In the thirty years that followed, the principle has been extended with astonishing perseverance. We have to-day a complete, minute, and voluminous code for the protection of labour; buildings must be kept pure of effluvia; dangerous machinery must be fenced; children and young persons must not clean it while in motion; their hours are not only limited but fixed; continuous employment must not exceed a given number of hours, varying with the trade, but prescribed by the law in given cases; a statutable number of holidays is imposed; the children must go to school, and the employer must every week have a certificate to that effect; if an accident happens, notice must be sent to the proper authorities; special provisions are made for bakehouses, for lace-making, for collieries, and for a whole schedule of other special callings; for the due enforcement and vigilant supervision of this immense host of minute prescriptions there is an immense host of inspectors, certifying surgeons, and other authorities."

This legislation has grown up under the piecemeal pressure of necessity, with little help from abstract theory; and, though details of it may be grumbled at and recent additions to it still criticised by the employers affected, as a whole it has the approval of the common sense of the community. Moreover, it is the one part of our economic policy which all other nations, as their circumstances came to approach ours, have thought it well to copy. If ever there was a case in which *securus judicat orbis terrarum*, this is one. The same judgment of the civilised world has not yet been

given in favour of the policy of unrestricted import. And although this is not a decisive argument against it, for the possibilities of human stupidity are limitless, yet it may properly moderate our confidence in the universal applicability of the principle of non-restraint.

And this is the reflection before all others which is suggested by the foregoing survey of the movement and counter-movement of thought in England. I have selected Factory Legislation as my example, because it is the most important of all the instances, and because, in its main outlines, it is no longer controversial. But the limitation of individual liberty of action has gone far in many other directions—by the State through both its central and its local organs, and by voluntary associations, which may, indeed, represent a large majority of those concerned, but none the less exercise control over a minority. The limits, for instance, of wise "municipalization" are certainly still open to question; yet every large municipality now regulates the lives of its citizens, and withdraws certain services from individual enterprise, to an extent which would have been hardly conceivable to the older economists, and it does this with the contented acquiescence of the ordinary elector. In the same way it is still doubtful whether the trade union organisation is capable of extension to the whole of English manufacture; and yet, as the Majority Report of the Labour Commission pointed out in

1894, in most of the staple industries of England, the settlement of wages between individual master and man has long ago given way to some form of collective bargaining between majority organisations on the two sides. Or look again at the spread of capitalist combinations. A good many manufacturers' alliances and associations have, it is true, broken down: there are many manufacturers who stoutly refuse to have anything to do with them; and it is evident that the methods of their formation and administration have not yet been sufficiently thought out. But that there is far greater readiness nowadays among men of business to associate themselves for the "regulation" of trade, no one can deny.

What are we to conclude from all this? Not that the principle of the unrestricted pursuit of individual self-interest is absolutely discredited; but certainly that it has lost, and deservedly lost, its old completeness and directness of appeal to the ordinary intelligent person. "Freedom" and "Liberty" are no longer in themselves such persuasive names to conjure with; for people vaguely feel that individual liberty has too often worked mischief, and that experience has shown the necessity of putting it under restraint.

To return, however, to the State regulation of industry by means of factory legislation: the lessons of its history are not yet exhausted. I said above that it had been built up piece by piece with little assistance from abstract theory.

Certainly the economists have played no such part in its creation, as they did in the destruction of the worn-out system of regulation attacked by Adam Smith. But they also, in England, have been converted to the belief in its desirability; and it is of no small significance to observe the sort of attitude they have taken up. In France, until very recent years, professional economists have clung to the abstract principle of liberty, with all the narrow logicality which is supposed to characterise the Latin intellect. It is instructive to read the preface to the ponderous "Dictionnaire d'Economie Politique," issued by MM. Say and Chailley as late as 1893. To its editors "Political Economy is summed up in one word—Liberty." "All goes well when *nothing* is regulated." "The liberty of labour occupies the same place in political economy as liberty of thought in philosophy." Their attitude towards factory legislation has therefore been consistently unsympathetic; and this may help to explain the fact, which they weakly lament, that "in France political economy exposes its adepts to impotence and almost to ridicule." In Germany, on the other hand, economists generally have a bias in favour of the principle of State control: their point of departure is the interest of the community, organised politically in the State, rather than the interest of the individual. But in England the significant thing in the discussion of factory legislation and the like by the most influential economists of our own time

has been the abandonment of appeal to abstract principles, either of Liberty or of State function. The typical exposition of this attitude will be found in Stanley Jevons' little book "The State in Relation to Labour," 1882. He thus sums up:

"The outcome of the inquiry is that we can lay down no hard-and-fast rules, but must treat every case, in detail, upon its merits. Specific experience is our best guide, or even express experiment, where possible."

Twenty years ago, the old individualist economics had still a good deal of vitality; and Jevons, proposing, as he did, a very considerable extension of factory legislation, had to put himself on the defensive; and this is how he did it:

"Philosophers will urge that we are invading abstract rights, and breaking through the teachings of theory. Political economists might, no doubt, be found to protest, likewise, that the principles of political economy are dead against such interference with the freedom of contract. But I venture to maintain that all these supposed natural entities—principles, rules, theories, axioms, and the like—are, at the best, but presumptions or probabilities of good. There is, on the whole, a certain considerable probability that individuals will find out for themselves the best paths in life, and will be eventually the best citizens when left at liberty to choose their own course. But surely probability is rebutted or destroyed by contrary certainty."[1]

This was substantially the attitude of the late Professor Sidgwick, whose carefully moderate discussion of the relations of the State and the individual is the most characteristic expression

[1] "Methods of Social Reform," 176.

of recent English political philosophy. It is the more characteristic because it starts with a general sympathy with *laissez-faire*, proceeds to point out exception after exception, and finally concludes that no one principle can be decisive in particular instances, which must be dealt with on a balance of considerations. Thus, "in the most abstract theoretical treatment," "the divergence between utility to the individual and utility to the society" is shown by him to be so frequent, that "complete *laissez-faire* is not to be taken as a political ideal; the problem for the statesman is to balance its disadvantages against the disadvantages of extending the sphere of government." And, coming to "concrete applications," he concludes that "the expediency of such interference in any particular case can only be decided by the light of experience after a careful balance of conflicting considerations." He openly breaks with Mill, who had laid down that no interference with individual freedom was justified on the ground of presumptive injury to others. "It does not appear to me that the answer to this question in concrete cases can reasonably be decided by any broad general formula; but rather that every case must be dealt with on its own merits." [1]

This abandonment of abstract principles as sufficient guides to conduct, this readiness to act here without feeling bound to act there,

[1] Sidgwick, "Principles of Political Economy," Bk. iii., ch. ii. and iii.

however similar the cases may be in theory, unless there is an equally urgent necessity, has been the note of English industrial legislation. Theoretically, Individualism is opposed to Socialism; theoretically, every abandonment of Individualism may be said to involve the acceptance of principles which will lead to complete Socialism. But this is not how the mind of the average Englishman works, nor is it the way in which social evolution progresses. Compromise, instead of being the dishonour, is the glory of practical statesmanship. Complete Individualism in theory and in practice we have been obliged to abandon in industrial life; but few thoughtful people really believe we are on our way to complete Socialism. More "socialistic" legislation will probably be required, but as far as we can see the amount of robust Individualism in industrial life is likely to remain for an indefinite time very large indeed!

What has been true in the sphere of domestic industry may quite conceivably be the case in the sphere of foreign trade. The sensible advocate of further factory legislation does not deny that there are certain great advantages in leaving people alone, if only they are not outweighed by the disadvantages. And, similarly, it is quite possible for an economist to recognise to the full all the advantages of freedom of trade—mainly, of course, in so far as it secures the benefits of division of labour—and yet to recommend protective measures in cases where these prospective advantages are

counterbalanced by other considerations. This, for instance, is the position of Professor Schmoller, of Berlin, the leader of the historical school of German economists. It by no means follows that, if in England absolute Free Trade should be abandoned, an all-round, all-inclusive Protective system would be set up. These are the antitheses of controversy, but not of real life. Interfere with the free flow of imports in one case, and other interests will clamorously demand interference. True. But they will not necessarily obtain what they demand. They will have to make out a case; there will be strong forces arrayed against them: and if some observers are very confident that any yielding of principle means the opening of the flood-gates, it is worth recalling that this is precisely what Cobden and Bright felt about interference with the conditions of labour. To the statesmen of the future the sharp contrast between Free Trade and Protection, each self-complete and mutually exclusive, may seem to belong to a bygone metaphysical age.

The historical survey may suggest one further thought. It is that, if this country should be on the point just now of entering upon a policy of governmental control of trade, it would be reproducing in a remarkable way the stages of development in the earlier period. The establishment of freedom of trade in England followed some distance behind the introduction of freedom of industry. The old restrictions had practically disappeared over the larger part of English

industry long before they were formally removed from the statute book in 1814; it is now suspected that Adam Smith somewhat over-estimated their practical importance as long before as 1776. It was out of the atmosphere of unrestraint which prevailed in manufactures that the demand arose for the removal of commercial restraint. And it would therefore not be surprising if the experience this country has more recently enjoyed of industrial regulation should dispose it in like measure to make experiments in commercial regulation.

CHAPTER II.

THE POLICY OF FREE IMPORTS: THE ARGUMENTS OF ITS ORIGINAL ADVOCATES.

We may perhaps be enabled to approach the consideration of the present crisis the more dispassionately if we take the trouble to look first at the arguments by which the policy of free imports was commended to the English people and at the relation of those arguments to the circumstances of the time. It will not be worth while for our immediate purpose to go back further than Adam Smith. I have elsewhere shown[1] that before his time the *policy* of Free Trade (there can hardly be said to have been a *doctrine* of it) was associated with the Tory or country party; and that the traditional policy of the Whig party from before the Revolution down to the time of Fox was an extreme form of Protectionism.

The Protectionism which Smith attacked was that of the manufacturing and commercial classes, and the name of "mercantile policy" which he gave to it has clung to it ever since.

Smith started with clearing out of the way the notion of money which underlay the current

[1] "Surveys, Historic and Economic" (1900), pp. 268 *seq.*

doctrine of the Balance of Trade. The purpose of trade is not to obtain money, but to obtain consumable commodities; and unless a country possesses gold mines, it does not *ultimately* pay for its imports in money, but in commodities. Smith's argument is not so compact as that of his great predecessor Hume, from whom he took his doctrine of money,[1] but it is sufficiently clear. With both Hume and Smith the most convincing part of their case lay in the appeal to facts; if an unfavourable balance of trade was paid for in coin, Ireland, said Hume, would long ago have been completely denuded of money; if, under modern circumstances, even war in distant parts was carried on by the exportation of money, England, as Smith observed, must have sent out its whole currency twice in six years without anyone's noticing it.

The proposition that exports pay for imports is not, indeed, true under all circumstances;[2] it may also take a long "long run" to balance the sides of the account; and in any case "invisible" goods (freight, &c.) must be added to "visible" in making up the totals. There is some little excuse even for the much ridiculed recent remark of a Colonial Premier; circumstances might really arise in which England paid (for a time) for her surplus of imports with "golden sovereigns." But there is a very good reason for believing that England has not yet done so, and this is the same reason as convinced

[1] "Essays," xvii. Of the Balance of Trade.

[2] *Cf.* Roscher, "Handel- und Gewerbefleiss," § 37.

Hume, viz., that the excess of imports has been incomparably greater than the whole coinage of the country. With England as she has been for some centuries, the notion that imports are paid for by money which might otherwise be "spent at home" is the crudest of popular fallacies, and ought no longer to need refutation.

Smith then proceeds to expound his fundamental doctrine, the doctrine which has remained fundamental with Free Traders ever since. It is that Protection diverts industry from more to less advantageous employments. The argument is easy. "No regulation of commerce can increase the quantity of industry in any society beyond what its capital can maintain. It can only divert a part of it into a direction in which it might not otherwise have gone." Left to himself, every individual endeavours to employ his capital in such a way that "its produce may be of the greatest value"; and this means that he necessarily "labours to render the annual revenue of the society (*i.e.*, the nation) as great as he can." The very fact that Protection is necessary for an industry means that the article cannot be produced at home as cheaply as abroad; it means that the consumer pays more than he would if he were allowed to buy the foreign article; and that, therefore, there is a waste of national labour which were better employed in some other way in which we have an advantage.

As List, the founder of "Scientific Protectionism,"

pointed out later, this teaching of Smith is evidently true as a *doctrine of present exchangeable values*, or, less technically, of present and immediate advantage. We may grant that, at any particular moment of time, every country possesses certain advantages over others in some direction of production. Let it produce these, and exchange them for those which other countries produce more advantageously, and each country will gain the advantages of international division of labour. If an industry is set up which needs a protective tariff to survive, the increment of price which the consumer has to pay is but an index of the social loss involved in this particular employment of its energy. This is the truth which popular Protectionism is always so unwilling to recognise, and which scientific Protectionism has always begun by recognising. Protection always involves *at first* a loss—not, indeed, always proportionate to the tariff; this is a Free Trade exaggeration to which I shall return later—a loss which is expressed in the easiest way by saying that the consumer has to pay more than he otherwise would for the protected commodities. If he does not, Protection is unnecessary. But everything turns upon the words *at first*.

It is very well known that John Stuart Mill made a remarkable concession—the so-called "infant industries argument."

"Protective duties can be defensible, on mere grounds of political economy, when they are imposed

temporarily (especially in a young and rising nation) in hopes of naturalizing a foreign industry in itself perfectly suitable to the circumstances of the country."[1]

Mill, with that inconsecutiveness of thought which adds so much to the charm of his character, always regarded this as a comparatively small and theoretically unimportant concession. His Free Trade friends, however, alarmed by the use made of the concession in America, regarded it as a lamentable aberration of judgment on the part of so great and good a man; and Bright, who did not mince his words, did not hesitate to say that this one paragraph would cause more injury to the world than all his writings would do good.[2] They were quite right in their alarm. It may be true that the infant industries argument has been the excuse for a vast amount of folly; the criticism that infant industries have a way of never growing up may be only too well deserved. It is certain, also, that the experience of the world in this matter has shown that, whatever else it may be, Free Trade is the *easiest* policy to pursue. None the less Mill's concession knocks the bottom out of Adam Smith's doctrine as one of universal validity—applicable to every country at any time. For it is but a concrete way of stating what List had already made the basis of his Protectionist doctrine. As List phrased it, the question of the

[1] "Principles of Political Economy," Bk. v., ch. x., § 1.
[2] Remark to Mr. Carnegie; "Empire of Business," p. 313.

productive powers of a country and their possible development is far more important than that of present *values;* it might be well worth while to incur a loss for a time in order to secure a more than proportionate future gain.

Considerations such as these were not absolutely unknown to Adam Smith: it is remarkable how many ideas which we are wont to ascribe to later times are to be found somewhere in his pages. He recognises that "advantages" are not always "natural"; they may be "acquired," and the effect will be just the same. But against the obvious reply that some countries may have advantages still to "acquire," he has absolutely nothing to say but to express his doubt as to the probability of ever recouping the temporary loss. Yet it is evident that to leave the matter to a judgment of probability is to concede the possibility that a protective policy may in some cases be economically justifiable; and it is evident also that Smith's policy involves the stereotyping of existing conditions. To take the favourite example of Mill, Poland had once an "advantage" over England in the production of wheat. Will it be maintained by any who know the social conditions of Poland that it would have been well for Poland that it should continue to be a purely agricultural country?

The point is one of more than antiquarian interest. Smith's whole conception is a *static* one —of *permanent* advantages enjoyed by one country

over another. But suppose goods are for a time offered to us at a lower price than that at which they can as a rule be produced in the country of origin. Suppose the cheapness does not correspond to a real advantage enjoyed by the exporting country but to a temporary need. Suppose that our buying them, and refusing to protect the competing industry, means *not* that we permanently enjoy the lower prices, but that when our market is captured and the competing English industry is killed (for a time or for ever) we have to pay (for a time or for ever) higher prices than we otherwise should. Does it follow in this case that "what is prudence in the conduct of a private family"—to buy in the cheapest market—"can scarce be folly in that of a great kingdom?" What Adam Smith would have said in such a case it were idle to discuss—it is simpler to say that the case never presented itself to him. Yet, as will be shown later, it is a case increasingly likely to be presented under modern conditions.

So far we have seen Adam Smith as the abstract reasoner. But Adam Smith was more than an abstract reasoner; he was also a man of wide historical reading; and, as he needed his arguments not so much for the construction of a logical structure as for the removal of certain definite evils, he was quite ready to temper their severity by large concessions. In spite of his previous contention, there are, he says, "two cases in which it *will* generally be advantageous to lay some burden

upon foreign for the encouragement of domestic industry," and there are "two in which it may sometimes be a matter of deliberation."[1] Of the first two, one is to countervail an excise already imposed on the same article at home. This is universally conceded and needs no further notice. The other is far more important, but it may best be considered after looking at the two cases of the less positive class. The first case

"in which it may sometimes be a matter of deliberation how far it is proper to continue the free importation of certain foreign goods is when some foreign nation restrains by high duties or prohibitions the importation of some of our manufactures into their country. There may be good policy in retaliations of this kind when there is a probability that they will procure the repeal of the high duties or prohibitions complained of. The recovery of a great foreign market will generally more than compensate the transitory inconveniency of paying dearer during a short time for some sorts of goods."

With elephantine humour he adds:

"To judge whether such retaliations are likely to produce such an effect does not, perhaps, belong so much to the science of a legislator" (by which he means an economist like himself), "whose deliberations ought to be governed by *general principles* which are always the same, as to the skill of that insidious and crafty animal vulgarly called a statesman or politician, whose counsels are directed by the *momentary fluctuations of affairs*."

Evidently Adam Smith does not think the policy will meet with much success, and I do not

[1] "Wealth of Nations," Bk. iv., ch. ii. (i. 35, 40).

for a moment wish to invoke his authority as in favour of retaliation. But he is fair-minded enough to allow that it may conceivably be successful; and for an opinion as to whether it has a fair chance of success to-day one would naturally turn to the men who have had practical experience in commercial negotiations. It is obvious that the same appeal to a balance of advantages which Smith allows in the case of a temporary impost is, on the same reasoning, allowable in the case of a more or less permanent low duty, if it secures more or less permanently a considerable diminution of a foreign tariff.

I suppose it is useless to refer to the opinions of English or Continental statesmen as to the usefulness of tariffs for purposes of negotiation: they will be all charged with partisan bias. I myself think it a tenable proposition that, if England had not so completely divested itself of its weapons in 1860, it could in subsequent years have obtained larger concessions from other nations, and that the "most favoured nation" practice would have secured the diffusion of the advantages thus secured. The whole world, with relatively moderate tariffs, might now have been enjoying greater freedom of trade than it does with one country completely free and the others barred by high tariff walls. But this is of course not susceptible of proof.

Possibly, though I am not sure, for we English are very self-opinionative, it may be worth while

in this connection to refer to the German economists. Nobody who knows the English and American universities will deny that it is to the example of German scholars that we owe in large measure the revival of economic studies among the English-speaking peoples in the last two or three decades. Nobody will deny also that the most characteristic product of German economists has been the work of the so-called "historical school." Now, Professor Gustav Schmoller, of Berlin, is undoubtedly the leader of the historical school, and he is also personally and academically the most influential of contemporary German economists; and his attitude towards the tariff question is precisely that of valuing them for purposes of negotiation. In the interesting debate at the annual meeting of the Verein für Socialpolitik at Munich in 1901, Professor Schmoller put this point of view in the clearest possible way:

"The new era of Protection has arisen not because economists and statesmen have been unable to understand the beautiful arguments of Free Trade, nor because a few monopolists and manufacturers have dominated the Government: it has arisen from the natural instincts of the peoples. It does not only rest —in many cases it does not primarily rest—on List's doctrine of educative tariffs (the 'productive powers' or 'infant industries' argument); it arises from a motive which is rather instinctively felt than clearly understood, viz., that tariffs are international weapons (Machtmittel) which may benefit a country, if skilfully used."

Being a perfectly fair-minded observer, he goes on to observe:

"This new mercantilism often overlooks, as every movement of the kind which is based on popular cries is sure to do, that these weapons may, as often as not, be used unskilfully. And thus Russia, the United States and France, have fallen back on an extravagantly high protective system. But their action drives all other states to a certain amount of tariff regulation, if only not to be quite defenceless. Without such weapons we cannot expect to make commercial treaties. And therefore Professor Schumacher" (who had read a previous paper) "has been very much to the point in emphasizing the importance of negotiation-tariffs (Verhandlungszöllen). The man who ignores these facts dwells in Cloudcookooland, and does not descend to the real earth with its opposing interests and struggles."[1]

And all this from the man who forty years ago was ready to risk his career to bring about freer trade in his native state. It is not without its significance that the younger economist whom he refers to, Professor Schumacher, is the director of the recently established Handelshochschule, or commercial college of university rank, in the city of Cologne. This, with its large staff and crowds of students, is by far the most successful experiment that has hitherto been made in any European country in the direction of the more thorough training of industrial leaders. Evidently its director does not trust the future of his country to "technical education" alone.

[1] Schriften des Vereins für Socialpolitik," xcviii. 270.

I do not wish to suggest that German economists are unanimous; there are of course among them a few able representatives of the out-and-out Free Trade doctrine, like Professor Brentano. But the moderate Protection party is in the majority; and though it is in my opinion most characteristically represented by Professor Schmoller, it includes the leader of the opposite and more theoretical school, Professor Wagner. This, however, as we shall see later, is mainly on other grounds.

We pass now to Adam Smith's other case.

"It may sometimes be a matter of deliberation how far or in what manner it is proper to restore the free importation of foreign goods after it has been some time interrupted, when particular manufactures, by means of high duties, &c., have been so far extended as to employ a great multitude of hands. Humanity may in this case require that the freedom of trade should be restored only by slow gradations, and with a great deal of reserve and circumspection. Were these high duties taken away all at once, cheaper foreign goods of the same kind might be poured so fast into the home market as to deprive all at once many thousands of our people of their ordinary employment and means of subsistence."

It would be quite fair to hold that "humanity" would likewise require that foreign goods should be admitted only by slow gradations, and with a great deal of reserve if they were likely to destroy an industry which had not previously been protected. But the case is somewhat different, and it is better to say that Adam Smith did not contemplate it. But let us look at Smith's further

discussion of the subject. He proceeds to whittle away his concession, and to argue that "the disorder would, in all probability, be much less than is commonly imagined." He points out that, as a matter of fact, several of the chief manufactures of England at that time—including "a great part" of what was then the leading staple, the woollen manufacture—produced so cheaply that they were in no practical danger. And if a great number in other industries should be thrown out of employment, they could without much difficulty find other work. "To the greater part of manufactures there are other collateral manufactures of so similar a nature that *a workman can easily transfer his industry from one of them to another.* The *greater part of such workmen,* too, *are occasionally employed in country labour.*" This last remark will show how far the industrial world has changed since Adam Smith's time. England was then a far more agricultural country; industry, on the "domestic system," was carried on much more largely in a certain loose association with rural employments; and the manufacturing population had a second string to their bow to a considerably greater extent than at present.[1] If for this reason only, we might to-day permit of the destruction of an existing industry with even more "reserve and

[1] For the combination, for instance, of handicrafts with small freehold pasture-farms in the cloth trade of the West Riding, see Toynbee, "Industrial Revolution," p. 53, and the well-known quotation from Defoe there given.

circumspection." But what shall be said of Smith's first point? Bagehot pointed out a quarter of a century ago "that the transferability of labour" was one of the two postulates, or assumptions, of the orthodox political economy of his time—"the transferability of capital" being the other. It can no doubt be argued with a great deal of force that though they are not by any means completely "transferable," they are sufficiently fluid to bring about that equalisation of the rates of wages and of profits which the theorist makes a starting point for further reasoning, though this is open to greater objection than Bagehot and others have realised.[1] But even if the transferability of labour is sufficiently true to real life to be made the postulate of an abstract theory—which avowedly cannot be applied to any particular case without due regard to the "friction" which may impede its complete realisation—it does not follow that it is sufficiently true to be made the basis of a practical economic policy. Even to Adam Smith, when he approached the subject in another connection, it appeared "evident from experience that a man is, of all sorts of luggage, the most difficult to be transported."[2] How much actual movement of labour there is from occupation to occupation is a matter on which economists will still differ; it is one of the many subjects on

[1] Bagehot, "Economic Studies," pp. 21 *seq.*; and for criticism, see Cliffe Leslie in "Essays," pp. 234 *seq.*

[2] Bk. i., ch. viii. (i. 79).

which we need further information. Of course, it varies with the district and the trade and the social grade. My own impression, based on some little observation, is that in the more highly skilled crafts there is exceedingly little fluidity—that men cling to a customary occupation, in which they have a special skill, with a pathetic (or, if you please, a stupid) persistency. But all economists will, I think, now grant that the older writers minimised unduly the difficulty with which labour transfers itself from one industry to another, even a closely allied one. Even supposing that all the labour thrown out of employment pretty soon finds an equally well-paid occupation, there is inevitably an economic loss in the temporary dislocation—the resort to savings or to charity while waiting for the new job, the cost of removal from place to place and the like, which must be set against the gain to the consumer in cheaper goods. But this is the most favourable supposition; and we must further consider—and to this we shall return—the relative value to the national economy as a whole of the old and of the substituted employment.

We now come at last to the case in which Adam Smith thought it would be positively expedient to lay some burden upon foreign for the encouragement of domestic industry. It is common to say that this was the case of the Navigation Act, which Smith calls "perhaps the wisest of all the commercial regulations of England"; and it is amusing to

see how the extreme free traders have hastened to declare that Adam Smith was quite mistaken, and that the Navigation Laws did nothing for English mercantile shipping and "did not diminish the naval power of Holland." The late Mr. Thorold Rogers, indeed, cast doubt on Smith's mental honesty; he thought it "singular that Smith should have deferred so much to municipal prejudice as to have lauded the Navigation Laws."[1] That they became unnecessary in the nineteenth century is doubtless true; on the question whether they were useful in the seventeenth century most unbiased readers of history will agree with Adam Smith. But the Navigation Act is justified by Adam Smith only as an example of a great principle: "It will be advantageous to lay some burden upon foreign for the encouragement of domestic industry when some particular sort of industry is necessary for the defence of the country." After showing how the defence of Great Britain depended very much on the number of its sailors and shipping, and how the Act of Navigation stimulated their increase, Smith takes pains to show how in some ways it checked the growth of opulence, and prevented Englishmen from buying as cheaply and selling as dearly as possible. But "defence is of much more importance than opulence."

Smith, it will be perceived, was much less cosmopolitan than many of his followers; he

[1] Note in his edition of Adam Smith, i. 37 n.

still had strong national feelings; and he did not anticipate an unbroken era of international peace. Moreover, he did not think it his business as an economist to disregard political considerations, nor did he apologise for introducing "non-economic" arguments. But the alarm of the Free Trade precisian at Smith's concession was altogether justified; for it opens the door to very much more than its author contemplated. One wonders, for instance, what Smith would have said to the present condition of affairs when the English people is dependent upon importation for more than three-quarters of its bread, and for almost half of it upon importation from a country with which we have quite recently seemed on the verge of war. Or again, if he had lived in these days of steel-built battleships, would he have viewed with equanimity a state of things which may well make its appearance—a flourishing shipbuilding trade absolutely dependent upon importation for the cruder forms of steel which it needs as its raw material? We cannot say, and it were vain to imagine. Modern circumstances are so much more complex than those of the time of Cromwell, that the maxim "defence is more important than opulence" may not be as easy for us to observe as it was for the Long Parliament. Yet it would be extravagant optimism to maintain that it can safely be forgotten.

The reader must now once more be reminded that the protection which Adam Smith attacked

was entirely that of the manufacturing and mercantile classes. At this time importation of wheat was indeed prohibited until the price reached a certain point; but this was practically unnecessary, for during the first half and more of the eighteenth century Great Britain was a corn-exporting country. A year or so before Adam Smith wrote, corn began to be imported to some extent at certain seasons of the year; but an equal quantity was still exported, and it was not till 1793 that there was a *net* import. Accordingly the interests of landlords and their tenants were not yet, when Smith wrote, enlisted on the side of import duties; and he could lavish his praise upon "the generosity natural to their station," in happy unconsciousness of the change that time was speedily to bring. To pass from the compliment of Smith, "Country gentlemen and farmers are, to their great honour, of all people the least subject to the wretched spirit of monopoly,"[1] to the index to Cobden's speeches under the words "monopoly" and "monopolists," is to receive a lesson in history. But Smith did not rely entirely on the generosity of the agricultural classes. He pointed out that "manufactures were much more easily transported than corn or cattle"; that accordingly "the free importation of foreign corn could very little affect the interest of the farmers of Great Britain," since they were effectively protected by the heavy freight charges:

[1] "Wealth of Nations," ii. 34.

"The small quantity of foreign corn imported even in times of the greatest scarcity may satisfy our farmers that they can have nothing to fear. The average quantity imported, one year with another, does not exceed $\frac{1}{570}$ of the annual consumption."

Let us now pass to the first period of Free Trade legislation, that beginning in 1820. Three years before that time Ricardo had formulated in his "Principles" a doctrine of international trade which he derived from Torrens. It was afterwards systematically worked out by John Stuart Mill, and has been the subject of much subtle discussion by theoretical writers. I shall return to it in a later chapter; here it need only be said that it was a further elaboration of Adam Smith's doctrine of the benefits to be derived from devotion to industries in which each country has an "advantage." It had very little, if any, effect upon public opinion, and entered but little into political controversy; and it can be here passed over for the time.

The arguments which were really made most of may all be found in the celebrated Petition of the London Merchants presented to the House of Commons in 1820. These are all drawn from Adam Smith. "Freedom from restraint is calculated to give . . . the best direction to the capital and industry of the country," enabling each country to export "those articles for which its own situation is best adapted," &c. "No

importation can be continued for any length of time without a corresponding exportation, direct or indirect," &c.

But by this time the situation was changing. After the great war was over, the landed interest, alarmed by the foreign supply which they feared might be attracted by the prevailing high prices, had demanded and obtained a high protective duty on corn. They had become the protective party; and a new phase in the commercial history of the country had begun. On the other hand, the dominating manufacturing interests, now enormously strengthened by the new mechanical inventions and benefiting by the depressed condition in which the European wars had left the Continental countries, had no longer any fear of foreign imports. The various other duties on imports were many of them irksome as affecting their raw materials: several were of little practical importance; and accordingly the duties on other commodities than corn found no interest to defend them except the Treasury, which was loath to part with the revenue. The burning point of the discussion was already the corn duties, and accordingly it is more suggestive to see how the leaders of opinion regarded them than to listen to their utterances on protection in general.

The Merchants' Petition above referred to was drafted by Tooke; and Tooke's view was still that of Adam Smith, that free importation could not

hurt the agricultural interest. On an average of years as much grain would still be exported as imported. Ricardo did not agree with him. He was not a defender of the existing high duties, though he was in favour of a small duty to countervail the peculiar burdens upon land in the shape of tithes and poor rate. But he thought the effect of free import (or import with a very low tariff) would be greater than Tooke supposed. It would be only a few weeks' consumption; but such a small excess of importation would, he thought, be "habitual and constant"—even if it was not, as he thought it would not be, enough to matter much to the landlords. The opinion of Malthus in favour of a much higher duty he spoke of as "a dangerous heresy"; and yet he himself confesses in the freedom of correspondence: "If indeed all our land was to go out of cultivation," as alarmists had anticipated, "then the question of importation would be a serious one indeed, and we should be obliged to give due consideration to the important political consequences which might result from it."[1] What he would have said if he could have seen the wheat area statistics of the last twenty years may not be worth conjecturing. He would probably not have maintained that the "due consideration" should be postponed till "*all* our land had gone out of cultivation."

We come now to the Anti-Corn Law agitation proper of the 'thirties and 'forties. And here it is

[1] "Letters of Ricardo to Trower," 161—2.

to be observed that the Repeal of the Corn Laws was not the result of the impact of a completely systematic doctrine, consistent in all its parts, but of a number of arguments which it would be quite impossible to bring into harmony with one another, though they were, honestly enough, all brought forward by the same orators. This fact may diminish the surprise we shall feel if a revision of the tariff system in an opposite direction should now be brought about by arguments not easy to reconcile theoretically with one another.

It must be granted, to begin with, that it was the alarm occasioned by the Irish potato famine and the dread of high corn prices which forced Peel's hand and led to his final conversion. In the well-known phrase of Bright, "Famine itself," against which it had warred, "joined" the Anti-Corn Law League. And it does not need saying that the "Cheap Loaf" and the "Big Loaf" have been infinitely the most effective of the popular Free Trade cries. But cheaper food was not the primary purpose of the free traders. The movement for repeal derived, of course, its originating force, its organisation, its leaders, and, not least of all, its enormous funds from the manufacturing classes, and especially from the textile capitalists of Lancashire; and their object was wider markets. It is difficult to put this without seeming to cast a reflection upon them—as if class interests did not usually furnish the effective practical pressure necessary for carrying any great change, however

salutary, and as if self-interest and sincere desire for the public good were not often enough combined. But no one can quarrel with Cobden's own account: "I am afraid, if we must confess the truth, that most of us entered upon this struggle with the belief that we had some distinct class interest in the question."[1] Looking back some years later Cobden freely recognised the class interests and feelings involved:

"The great capitalist class formed an excellent basis for the Anti-Corn Law movement, for they had inexhaustible purses, which they opened freely in a contest where not only their pecuniary interests but their pride as 'an order' was at stake."[2]

And he lamented the superficiality of the manufacturers' conversion to Free Trade principles:

"The manufacturers of Yorkshire and Lancashire look upon India and China as a field of enterprise which can only be kept open to them by force, and indeed they are willing, apparently, to be at all the cost of holding open the door of the whole of Asia, for the rest of the world to trade on the same terms as themselves. How few of those who fought for the Repeal of the Corn Law really understand the full meaning of Free Trade principles!"[3]

The fundamental and dominating ideas of the Anti-Corn Law agitation are evident enough if one looks at its earlier and more systematic expositions. That there should be no suspicion of unfairness

[1] Speech of October 19, 1843.
[2] Letter of 1857, in Morley, "Life," ch. xxiv.
[3] Letter of 1857 also; *ibid.*, ch. xxv.

in the selection, let us turn for evidence to a volume recently published under the most orthodox auspices: "Free Trade and other Fundamental Doctrines of the Manchester School, set forth in Selections from the Speeches and Writings of its Founders and Followers."[1] Following the Petition of the London Merchants already referred to come a speech by Joseph Hume in 1833, and the Manchester Petition against the Corn Laws drawn up by Cobden and others in 1838. Both started with the idea that exports must be paid for by imports. Hence, to secure a wider market abroad for our goods, it was necessary to admit the products of other countries. That our exports would all be manufactures was assumed: British corn could evidently not compete abroad with the cheaper foreign grain, and the time had not yet come for the export of coal. It was similarly assumed that the imports would consist mainly of unmanufactured goods. Hume expressly remarks that "fortunately for England all her imports are raw materials." The greater demand for English manufactures would lead to more people being employed—"want of employment" (not dear bread) being "the great evil at the present time"—and hence more people would be able to buy food. The line of thought is not that more people will buy bread because it is cheaper, but

[1] Edited by P. W. Hirst, 1903. According to the preface, it is intended to remove current misconceptions of the character, temper, and aims of the Manchester school.

that more people will buy bread because they obtain employment.

But now take a step further. The position as to the foreign market, as the manufacturers conceived it, was not only that the foreigner could not buy English goods because he was not allowed to pay for them in corn, but that the foreigner was beginning to become independent of the English supply. "Your petitioners view with great alarm," says the Manchester manifesto, "the rapid extension of foreign manufactures. . . . The several nations of the Continent not only produce sufficient manufactures for their own consumption, but they successfully compete with us in neutral foreign markets." And this (according to the Manchester merchants in 1838 and Hume in 1833) was because the foreign manufacturer had the benefit of cheaper food. "Our legislation," say the petitioners, "by preventing the British manufacturer from exchanging the produce of his labour for the corn of other countries, enables our foreign rivals to purchase their food at one-half the price at which it is sold in this market."

Hume puts the case in precisely the same way:

"If we are obliged to feed our population 30 per cent. dearer than the population of our rivals is fed, by paying 50s. a quarter for corn, which in Europe and America can be purchased for 30s. a quarter, the consequence is clear that the manufacturers of England are placed in a situation worse by 30 per cent. in the expense of manufacturing their goods

than their Continental and Transatlantic brethren. Consequently the rate of profit which they would otherwise derive from their superior machinery, and their more easy supply of coal, carriage, &c., is ground down by their meeting in the foreign market the manufacturers of cheaper corn countries."

Now, how was this desirable equalisation to take place? It might conceivably occur in two ways: food in England might become cheaper or food abroad might become dearer. Hume maintained the second alternative. Free importation, by widening the area of supply, would save the corn markets from "fluctuations such as we have of late witnessed," but "certainly not" cause the price of corn to fall.

"There is abundant proof that the opening of our ports always tends to raise the price of foreign corn to the price in the English market, and not to sink the price of British corn to the price in the Continental market. The effect of a free trade in corn would be to place the workman in England on the same footing as to price as the workmen of Europe and America—the price of food would rise everywhere to the price in England, because no person would sell food in any other country if he could obtain a better price at all times in England."

Accordingly there is no reason whatever for the farmers to feel any alarm. After various other pieces of statistical evidence, he adds:

"In proof that the quantity of corn imported is small in comparison to our consumption, and that it can affect the price of corn in England but little, I may state that, between the years 1795 and 1815, when the ports were virtually open, the import of

corn was only equal to 5 per cent. or $\frac{1}{20}$ of our consumption. . . . The advantage to Great Britain of a regular free trade in corn would, therefore, be more by raising the rest of the world to our standard and price than by lowering the prices here to the standard of the Continent."

The $\frac{1}{20}$ of Hume may be compared with the $\frac{1}{57\frac{1}{1}}$ of Adam Smith: the fraction is increasing.

As soon, however, as Cobden entered upon his popular propaganda the note was changed. No doubt he actually believed that the Repeal of the Corn Laws would reduce the price of corn; and certainly cheap food was an effective popular cry. At any rate the nature of the tariff as a "food tax" was put in the foreground, and in his first speech in Parliament Cobden described the duty as "a tax, at the lowest estimate, of 40 per cent. above the price we should pay if there were a free trade in corn."[1] This was a position exposed to danger on two sides. If the price of food went down, would not the rate of wages go down also? This is what the Chartists believed was the real intention of the League, and it was one of the main reasons why they did not throw their weight on the side of Repeal. "The free traders want to get the Corn Laws repealed, not for your benefit, but for their own. Cheap bread, they cry, but they mean low wages." So spoke Thomas Cooper. The Anti-Corn Law movement, indeed, remained to the end "eminently a middle class agitation," as Cobden

[1] Speech of August 25, 1841.

readily acknowledged when he "charged the great body of intelligent mechanics with standing aloof"[1]; and it will be remembered that its electoral victories were won before the franchise reforms of 1867 and 1884. In Parliament the same objection as to the effect on wages was urged by the representatives of the landed interest. What made it particularly embarrassing was that it was orthodox political economy at the time. Ricardo had laid down that the "natural price of labour," to which "market price" (the wages of any particular time), with fluctuating demand, "has a tendency to conform," "is that price which is necessary to enable the labourers to subsist." And from this he drew the following conclusions:

"With the progress of society the natural price of labour has always a tendency to rise, because one of the principal commodities by which its natural price is regulated has a tendency to become dearer, from the greater difficulty of producing it. As, however, the improvements in agriculture, *the discovery of new markets, whence provisions may be imported,* may for a time counteract the tendency to a rise in the price of necessaries, and *may* even *occasion their natural price to fall, so will the same causes produce the correspondent effects on the natural price of labour.*"[2]

Cobden frankly recognised that this had been the general doctrine:

"In reading the debates upon the passing of the first stringent Corn Law of 1814, I am much struck

[1] Morley, "Life," ch. xi.

[2] "Principles of Political Economy," 1817, ch. v.

to find that all parties who took part in that discussion were agreed upon one point—it was that the price of food regulated the rate of wages. That principle was laid down, not by one side of the House, but by men of no mean experience on each side."

Yet to admit such a principle would have been fatal to Cobden's cause; and he was sufficiently in touch with real life to feel that Ricardo's doctrine was at any rate a great exaggeration. Accordingly he did not hesitate to characterise the notion as a delusion. He was ready enough to quote "political economy" for his purpose, but the economist he preferred to go back to in this matter was Adam Smith. That wages rise as the price of provisions advance might be true, he said ironically, of agricultural labourers, whose wages were already at the very minimum. But going boldly to the opposite extreme to that of Ricardo, and not without some exaggeration on his part also, he was ready to "assert without fear of contradiction that, in manufacturing industries, the rate of wages has no more connection with the price of food than with the moon's changes. It depends entirely on the demand for labour."[2]

But there was another danger from the agricultural side. If prices were to fall, would not the agricultural interests be injured? Cobden managed to reach Hume's consolatory conclusion in another

[1] Speech of February 24, 1842.
[2] *Ibid.*

way. Prices might indeed fall; but the loss could be, and might easily be, made up for by improved farming.

"The landowners have nothing pecuniarily, they have nothing ultimately, to dread from a free trade in corn. But under Free Trade, instead of extorting their rents from the distress of every class in the country, they would be thrown back upon their own resources. Now, there are riches slumbering in the soil—if the owners employ their capital and their intelligence as other classes are forced to do in other pursuits—there are undeveloped bounties even on the surface of the earth, and there are ten times more beneath the surface, which would make them richer, happier, and better men, if they would cast aside this monopoly."[1]

"I have never been one who believed that the repeal of the Corn Laws would throw an acre of land out of cultivation."[2]

It is no small praise to say that Cobden's forecast turned out true for more than a quarter of a century. Repeal was, indeed, followed for a time by agricultural panic, and many landlords and farmers suffered heavily. But, as the highest authority on agricultural history tells us, "from 1853 matters rapidly righted themselves. Caird's pamphlet, 'High Farming the Best Substitute for Protection,' pointed out the true remedy. Rentals rose rapidly; yet still farmers realised fortunes. Drainage was carried out extensively, and it was now that the *general* level of farming rose rapidly

[1] Speech of September 28, 1843.
[2] Speech of October 19, 1843.

towards the best standard of individual farmers in 1837. Crops reached limits which production has never since exceeded. Imports of corn, wheat and dairy produce supplemented without displacing home supplies."[1]

These halcyon days ended in 1874. Until then Cobden might well be called a true prophet. Then came a period of agricultural distress due to a number of causes; and for ten years more, perhaps, the accuracy of his forecast was a matter that could be discussed. In the early 'eighties, however, it had to be recognised that the situation had changed. Foreign corn began to be placed on our markets at a price far below what had ever before been deemed likely: the improvement of means of transportation on land and sea opened up new and virgin soils and cheapened the carriage of their crops; and it had to be reluctantly confessed that high farming was no defence against the superficial and inexpensive farming of new lands. This was the fundamental conclusion of Professor Sering's well-known book on the agricultural competition of America, issued in 1887; and it is, I believe, no longer called in question by those who have given scientific attention to the subject.

The fate of Cobden's prophecy as to agriculture is typical of the fate of the other anticipations of the Manchester party. It is not necessary to make

[1] Prothero in "Journal of the Royal Agricultural Society," lxii., 28.

controversial capital out of the nonfulfilment of their expectations that other nations would follow England's example. Cobden's prediction that "there will not be a tariff in Europe that will not be changed in less than five years to follow your example"[1] seemed in the early 'sixties not unlikely to be fulfilled. The main thing is that the Manchester party looked forward to a permanent possession of the markets of the great nations of the earth, which were to remain agricultural and to depend upon us for manufactures. Until the early 'seventies these foreign markets were secured. English industry and trade marvellously increased; and undoubtedly the nation did reap vast benefits for the time. But for the last thirty years other nations have more and more determined to supply themselves at any cost with the manufactures they need; and the free importation of food is as little likely permanently to secure our foreign markets as high farming is to maintain our national agriculture.

[1] Speech of January 15, 1846. *Cf.* Cobden's expectation as to France as early as 1835, and Bright's as to Victoria as late as 1877, in "The Manchester School," pp. 107, 385.

CHAPTER III.

THE COMMERCIAL SITUATION TO-DAY AND ITS CAUSES.

1. The value of the exports of British produce and manufactures was almost stationary between 1872 and 1899.

The amount of exports would not be a vital matter to a more self-contained country—*e.g.*, the United States; it must be of the utmost significance to a country which, in pursuance of an export policy, has sacrificed its agriculture, and is dependent upon its sales or investments abroad (the latter necessarily taking the form of the disposal of goods) for the purchase of the raw materials of all its staple industries.

To avoid any unfair selection of years or any artificial averages, all the figures are given below from 1805 to 1902. The comparison of the latest figures with those of an earlier date is rendered a little difficult by two recent inclusions. Since 1892 tobacco manufactured in bond has been transferred from the tables of foreign produce exported to those of British produce and manufactures. It is a comparatively small entry, though it now reaches some three-quarters of a million.

More important is the inclusion since 1899 of new ships and their machinery, with an annual value of between five and ten million pounds. The fairest method of comparison would be to add to previous years the values of ships then exported. No exact figures of these are accessible, though probably the shipbuilders could furnish rough estimates. Meanwhile, the only method of comparison left to us is to deduct the ship figures from those of the last four years.

It will be seen from the figures that British exports made no sustained progress between 1805 and 1834, fluctuating between 31 millions and 41 millions (with the exception of 1815 and 1818). They then began to increase, reaching 60 millions in the year before the Repeal of the Corn Laws. No notable advance was evident till 1850, but from that date the increase was rapid, and on the whole sustained, till 1872, when the figure 256 millions was reached. It is fair to attribute a considerable part of this increase to the Free Trade policy of the country. But it will be observed—(1) that the 'fifties were marked by a vast extension of railroad and steamship transportation; (2) that England had a great start over Continental countries in the application of machinery; and (3) that it was free from the disturbance of trade caused abroad by the American Civil War, the Austro-Prussian War, and the Franco-German War.

The fluctuations of our export trade since 1872

will be seen from the table. The figure 256 millions was not passed or reached until 1890 rose to 264; and the value fell often as low as 220 or 210, and even to 191 millions. Of course, these figures are only very rough indications of the state of trade; to get a more exact indication the cost of raw material and the growing economies of production would need to be estimated. But they are rough indications; and it will be noticed on considering them that Free Trade did not save England from sharing in each periodical wave of depression which swept over Europe and America, and that the fluctuations even in successive years were sometimes very serious. In 1891 began another period of depression, and exports fell to figures familiar ten or twenty years before. They did not rise in any marked way till 1900 (282, without ships and tobacco), and they have since somewhat fallen off.

It is not to be denied that, in 1900 and since, England has shared in the general wave of prosperity which has been even more marked elsewhere, especially in the United States. But it must be noted that, of the increase from 254 millions in 1899 to 282 in 1900—28 millions—15 millions are accounted for by an increased export of coal at the exceedingly high prices then ruling; that in that and subsequent years the war in South Africa has led to large shipments thither; and that some increase at any rate, even if not large, must be credited to the Canadian preference. It is

proverbially unsafe to prophesy; and it would be dishonest to leave the figures for 1900—1902 out of the account. They may possibly mark the dawn of a better era; on the other hand, considering the ominous situation in the United States and Germany, it is more probable that the world (and England with it) is about to enter into another period of depression. And surely the period 1872—1899 is long enough and recent enough to compel us to say—not in a controversial spirit, but as sober observers—that we can hardly look forward to any considerable expansion of our exports, so long as the commercial and industrial situation of the world remains what it is.

EXPORTS OF BRITISH PRODUCE AND MANUFACTURES.

[The figures for 1805—1845 are the "real or declared value," as distinguished from the "official value"; they are taken from the "Progress of the Nation" (1847) of G. R. Porter, of the Board of Trade. Decimals are given to indicate hundreds of thousands.

The figures for 1846—1853 are "real values," as given in Levi, "History of British Commerce."

The figures for 1854—1902 are from a series of the Board of Trade "Statistical Abstracts for the United Kingdom."]

	Millions £.		Millions £.
1805	38	1808	37·27
1806	40·87	1809	47·37
1807	37·24	1810	48·43

	Millions £.
1811	32·89
1812	41·71
1813. Records destroyed by fire.	
1814	45·49
1815	51·6
1816	41·65
1817	41·76
1818	46·6
1819	35·2
1820	36·42
1821	36·65
1822	36·96
1823	35·45
1824	38·39
1825	38·87
1826	31·53
1827	37·18
1828	36·81
1829	35·84
1830	38·27
1831	37·16
1832	36·45
1833	39·66
1834	41·64
1835	47·37
1836	53·36
1837	42
1838	50
1839	53·23
1840	51·4
1841	51·63
1842	47·38
1843	52·27
1844	58·58
1845	60·11
1846	57·78
1847	58·84
1848	52·84

	Millions £.
1849	63·59
1850	71·36
1851	74·44
1852	78
1853	98·93
1854	97·18
1855	95·68
1856	115·82
1857	122
1858	116·6
1859	130·41
1860	135·89
1861	125
1862	123·99
1863	146·6
1864	160·44
1865	165·83
1866	188·91
1867	180·96
1868	179·67
1869	189·95
1870	199·58
1871	223
1872	256·25
1873	255·16
1874	239·55
1875	223·46
1876	200·63
1877	198·89
1878	192·84
1879	191·53
1880	223
1881	234
1882	241·46
1883	239·79
1884	233
1885	213
1886	212·43
1887	221·91
1888	234·53

		Million £.	
1889	...	248·93	
1890	...	264·53	
1891	...	247·23	
1892	...	227·04	without tobacco manufactured in bond, which had not previously been included in British and Irish produce.
		227·21	with tobacco.
1893	...	218·07	
		218·25	with tobacco.
1894	...	215·8	
		216	with tobacco.
1895	...	225·87	
		226·12	with tobacco.
1896	...	239·81	
		240·14	with tobacco.
1897	...	233·8	
		234·21	with tobacco.
1898	...	232·91	
		233·35	with tobacco.
1899	...	254·83	
		264·49	with tobacco (£471,793) and ships and boats (new) with their machinery (more than £9,000,000 this year), not previously included in the values of British exports.
1900	...	282·125	
		291·19	with tobacco (£578,781) and ships (over £8,500,000).
1901	...	270·12	
		280	with tobacco (£750,644) and ships (over £9,000,000).
1902	...	276·84	
		283·43	with tobacco (£707,414) and ships (more than £5,750,000).

2. British exports, their total value remaining stationary, have necessarily been of diminishing

value in proportion to the population of the commercial world, which has been rapidly increasing. Per head of population of the United Kingdom, British exports were in the most prosperous recent year, 1900, £1 below what they were in 1872—a fall of about 12 per cent.

As the following statistics show, which are given for every year since 1854 (the earliest date accessible to me at the time) to exclude all suspicion of manipulation, their value per head of population increased at first slowly after the Corn Laws were repealed, and then rapidly until they reached the high-water mark of £8 1*s.* in 1872. They stayed almost at that figure the next year, then fell rapidly to £5 14*s.* 8*d.* in 1879; and henceforward fluctuated between that amount and £7. The figures of recent years are swollen by the inclusion of shipping, as explained above. Omitting shipping, the figures for 1900, for instance, would be about £6 16*s.* instead of £7 1*s.*

VALUE OF EXPORTS OF BRITISH PRODUCE AND MANUFACTURES PER HEAD OF POPULATION OF THE UNITED KINGDOM, 1854—1901.

[The figures are from a series of Board of Trade "Statistical Abstracts."]

	£	s.	d.		£	s.	d.
1854 ...	3	10	2	1857 ...	4	6	7
1855 ...	3	8	10	1858 ...	4	2	5
1856 ...	4	2	10	1859 ...	4	11	2

	£	s.	d.
1860 ...	4	14	7
1861 ...	4	6	5
1862 ...	4	5	7
1863 ...	5	0	0
1864 ...	5	8	4
1865 ...	5	11	1
1866 ...	6	5	7
1867 ...	5	19	4
1868 ...	5	17	4
1869 ...	6	2	7
1870 ...	6	7	11
1871 ...	7	1	7
1872 ...	8	1	0
1873 ...	7	18	7
1874 ...	7	7	5
1875 ...	6	16	1
1876 ...	6	0	10
1877 ...	5	18	6
1878 ...	5	13	8
1879 ...	5	11	8
1880 ...	6	8	10

	£	s.	d.
1881 ...	6	13	11
1882 ...	6	16	10
1883 ...	6	14	8
1884 ...	6	9	7
1885 ...	5	17	3
1886 ...	5	15	9
1887 ...	6	1	3
1888 ...	6	7	2
1889 ...	6	13	11
1890 ...	7	0	7
1891 ...	6	10	9
1892 ...	5	19	1
1893 ...	5	13	4
1894 ...	5	11	1
1895 ...	5	15	2
1896 ...	6	1	2
1897 ...	5	17	0
1898 ...	5	15	6
1899 ...	6	9	7
1900 ...	7	1	6
1901 ...	6	14	10

3. Cotton manufactures are by far the most important of all our exports. Thus in 1901 the total value exported of cotton manufactures of all kinds, together with cotton yarn and twist, amounted to more than £73,000,000 out of a total of £280,000,000—the next largest items, coal and iron and steel, being far behind with some £30,000,000 and £25,000,000 respectively. Piece goods form incomparably the largest item in the group—between $\frac{4}{6}$ths and $\frac{5}{6}$ths of the whole. Now the annual *value* of cotton piece goods exported reached its highest point in 1881 (when it just overstepped the value of 1872). Since then it has

apparently tended to decline, and its maximum of 1901 was distinctly below that of twenty years before. *Values* alone are, of course, evidently misleading, because prices have fallen very considerably; but *quantities* also have moved slowly since 1888. The state of affairs is displayed more clearly to the eye by the accompanying chart, than it can be in words. The chart shows how laboured has been the upward movement of late, as marked by the years 1890, 1894, and 1899, and with what large fluctuations it has been attended. Any objection to the selection of 1872 as the year of departure will be dispelled by reference to the chart in Mr. Bowley's "Statistics," p. 164, where it will be seen that there was a rapid sweep upward from 1869 to 1872, and another from the depression of the Cotton Famine up to 1868. The general curve unmistakably indicates a marked slackening of progress, apparently approaching something like stagnation.

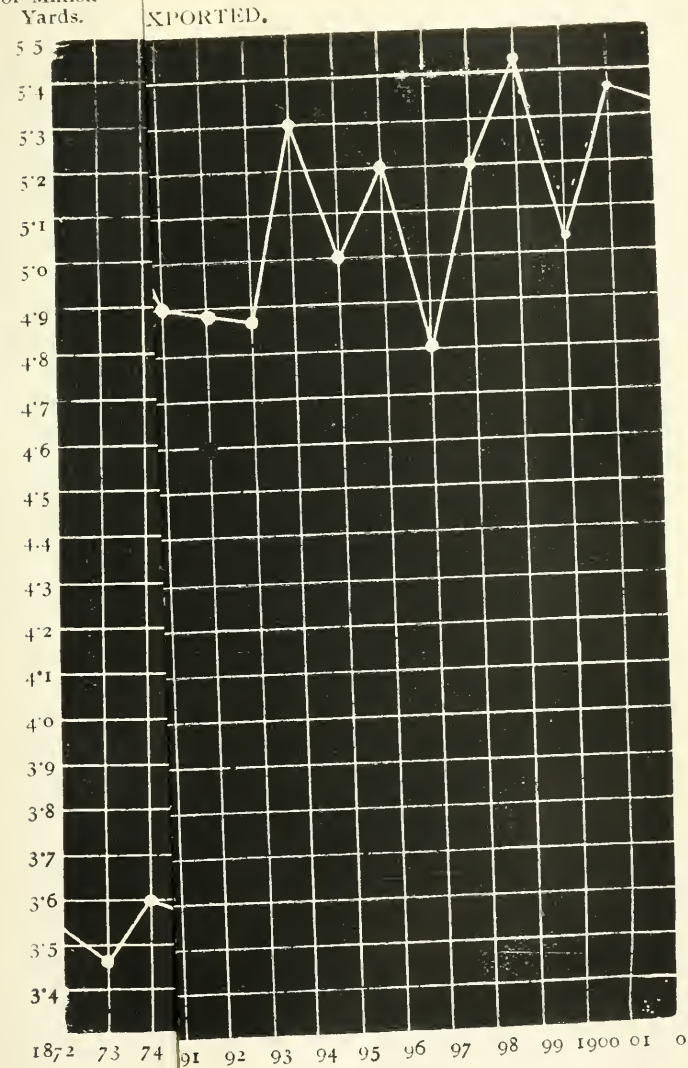
VALUES AND QUANTITIES OF COTTON PIECE GOODS EXPORTED, 1872—1902.

	Values in millions of £ and decimals.	Quantities in millions of yards.
1872	58·9	3,537
1873	56·4	3,483
1874	55	3,606
1875	53·6	3,562
1876	50	3,669
1877	52·4	3,837
1878	48	3,618
1879	46·8	3,724
1880	57·6	4,495

	Values in millions of £ and decimals.	Quantities in millions of yards.
1881	59	4,777
1882	55·4	4,349
1883	55·5	4,538
1884	51·6	4,417
1885	48·2	4,374
1886	50·1	4,480
1887	51·7	4,904
1888	52·5	5,038
1889	51·3	5,001
1890	54·1	5,124
1891	52·4	4,912
1892	48·7	4,873
1893	47·2	4,652
1894	50·1	5,312
1895	46·7	5,032
1896	51·1	5,218
1897	45·7	4,792
1898	47·8	5,216
1899	50·8	5,438
1900	52·3	5,031
1901	56·4	5,364
1902	55·2	5,331

The figures prior to 1889 need a slight correction owing to the circumstance that piece goods of mixed materials in which wool predominated were then entered as cotton manufactures. Their value seems to have varied from £300,000 to £900,000—usually about £500,000 or £600,000 (1881 probably £690,000). The *quantities* of piece goods are given in the "Abstract"; their *values* have had to be separated from other cotton manufactures and added up apart.

4. Much the most important product of the cotton industry, after piece goods, is cotton yarn.


Thousands of Million Yards.
XPORTED.
5·5
5·4
5·3
5·2
5·1
5·0
4·9
4·8
4·7
4·6
4·5
4·4
4·3
4·2
4·1
4·0
3·9
3·8
3·7
3·6
3·5
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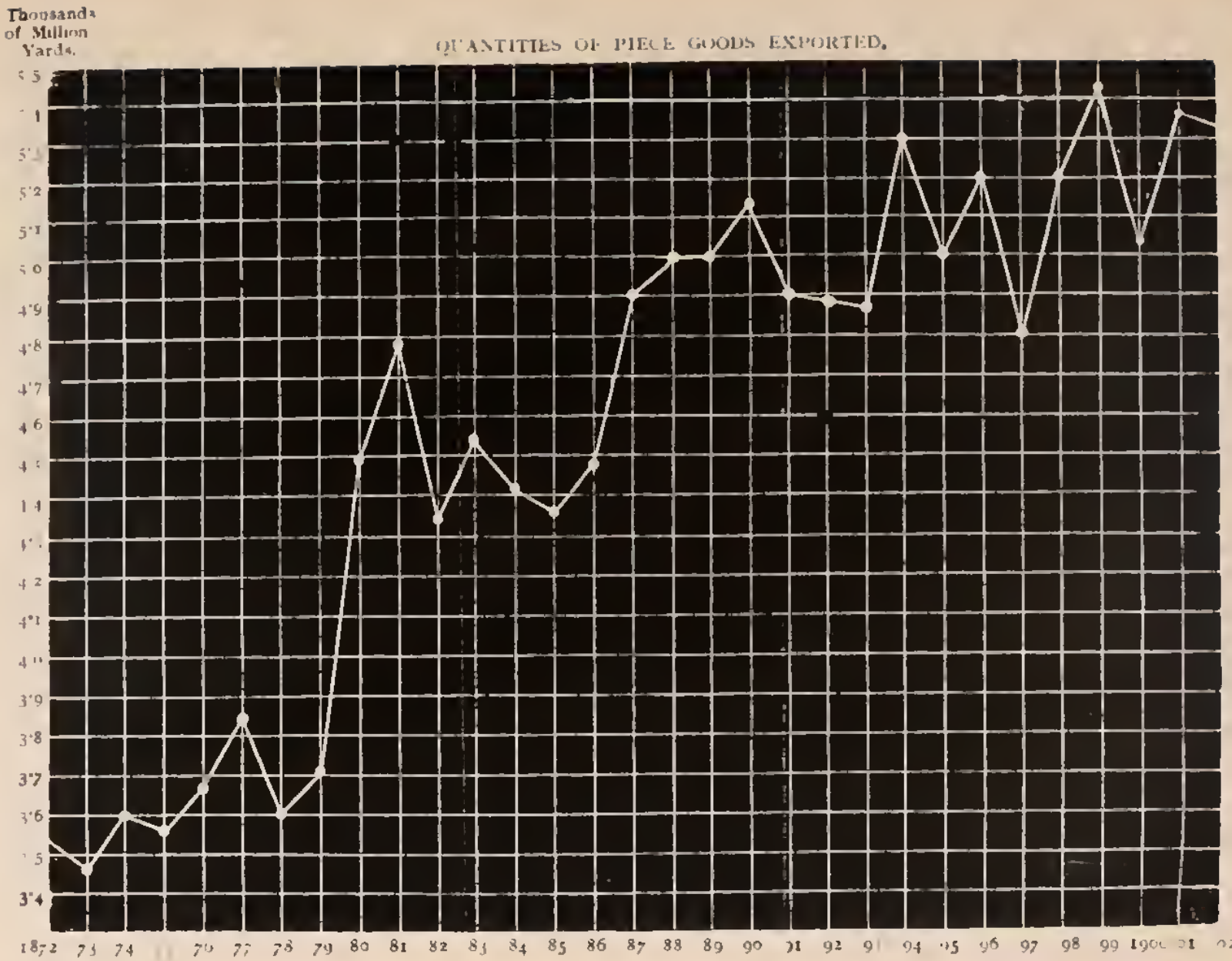
1872
73
74
91
92
93
94
95
96
97
98
99
1900
01
02


Thousands of Million Yards.
QUANTITIES OF PIECE GOODS EXPORTED.
5·5
5·2
5·1
5·0
4·9
4·8
4·7
4·6
4·2
4·1
3·9
3·8
3·7
3·6
3·4
1872 73 74 79 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 94 95 96 97 98 99 1900 01 02

The quantity of yarn exported reached its climax in 1884. It has never since attained the point then gained; for some years it was stationary at a slightly lower point; of late it has shown a marked tendency to decline. The value reached its maximum in 1872, and since then it has on the whole steadily declined.

The table given below shows the almost steadily sustained growth up to 1884 in the quantity exported, with the exception of the years during and following the Cotton Famine and during the Franco-German War. The subsequent decline would be even more clearly brought out by a curve; but mere inspection of the figures will show that the maxima are progressively smaller—1884, 270; 1890, 258; 1897, 252; and that the small figures of the last two years have no precedents since 1869.

EXPORTS OF COTTON YARN AND TWIST.

	Values in millions of £.	Quantities in millions of lbs.
1854	6·6	147
1855	7·2	165
1856	8	181
1857	8·7	176
1858	9·5	200
1859	9·4	192
1860	9·8	197
1861	9·2	177
1862	6·2	93
1863	8	74
1864	9	75
1865	10·3	103
1866	13·6	138
1867	14·8	169

	Values in millions of £.	Quantities in millions of lbs.
1868	14·7	174
1869	14	168
1870	14·6	186
1871	15	193
1872	16·6	212
1873	15·8	214
1874	14·5	220
1875	13·1	215
1876	12·7	232
1877	12·1	227
1878	13	250
1879	12·1	235
1880	11·9	215
1881	13·1	254
1882	12·8	238
1883	13·5	264
1884	13·8	270
1885	11·8	245
1886	11·4	254
1887	11·3	251
1888	11·6	255
1889	11·7	252
1890	12·3	258
1891	11·1	244
1892	9·6	233
1893	9	206
1894	9·2	236
1895	9·2	251
1896	10	246
1897	9·9	252
1898	8·9	246
1899	8	213
1900	7·7	168
1901	7·9	169
1902	7·4	166

5. Passing over coal for the present, the next most important entry in the list of British exports

is Iron and Steel and Manufactures thereof (excluding Machinery and Ships). The value of these reached their maximum in 1873 (£37,750,000), after a period of rapid growth. It has never since reached so high a point (1882, £31,000,000; 1890, £31,000,000; 1900, £31,000,000); and for the last thirty years it has been stationary—varying between £25,000,000 and £31,000,000 in periods of prosperity, and sinking to £18,000,000 or £20,000,000 in periods of depression.

The history of the iron and steel group shows, therefore, much the same features as the cotton group: a maximum attained thirty years ago, and increasing difficulty in maintaining a somewhat lower position. In quantity, reckoned in tons, the maximum was reached in 1882 with 4·3 millions; since 1889 and 1890 (4·1 and 4 respectively), the quantity has never risen above 3·7 (1899), which seems to represent the new maximum. This figure of quantity, put together from so many different kinds of goods, is a highly artificial one, and can only be used with caution.

6. The export industry of next importance is the woollen and worsted. The exports of woollen and worsted manufactures reached their maximum value in 1872 (£32,000,000); they have greatly fallen since, not reaching £20,000,000 since 1890, and for the last few years varying around £14,000,000. These figures alone would not be significant, since the price of the raw material has greatly fallen also.

But the figures of quantity also indicate a declining export trade, though, of course, in lesser proportions.

Comparisons with earlier periods are rendered difficult by changes in the form of the Board of Trade statistics. Much the most important entry is that of worsted stuffs, unmixed and mixed. These reached their maximum export in 1872, with almost 345 million yards. They fell to under 200 millions in 1877; stayed around that figure to 1888; fell to 145 millions in 1890; 119 millions in 1891; struggled around the 100 millions figure for a few years; and then dropped again by a quarter, until in 1901 they were 77 millions only. As some, but insufficient, compensation, the next largest entry, cloths, coatings, &c., mixed and unmixed, did not reach their maximum, with 93 million yards, till 1895; but at once fell, and for the last five years have ranged between 61 and 67 millions. Carpets and druggets reached a maximum of 12·9 million yards in 1887, and for the last eight years have ranged between 7 and 9 million yards.

The marked decrease in the export of manufactures was to some extent made up, for the district as a whole, by an increase in the exportation of woollen and worsted yarn. This reached its earlier maximum with 43 million lbs. in 1871, fell to 26·4 in 1880, then rose pretty steadily to 63 in 1899, and has since considerably fallen.

7. Finally, to mention the last of the old staple industries of Great Britain, the linen trade, the

value of its exports has been almost stationary since 1876, at about £5,000,000, with a tendency to decline. The quantity of piece goods exported reached its maximum in 1873, with 245 million yards. It has never since risen much above 200 millions, and its usual figure is between 190 millions and 175 millions.

It may be added that the minor textile industry, more recent in its development, that of jute goods, reached its maximum of quantity of export in 1891 with 283 million yards of piece goods. The export has since steadily declined to 173 millions in 1900, with an improvement to 215 in 1901, and a further fall to 195 in 1902; 215, the last maximum, is thus some 24 per cent. below the earlier maximum. The maximum of values exported was reached in 1889. This diminution has been only very partially compensated for to the jute industry as a whole by an increase in the export of jute yarn.

8. Thus all the older staple industries of Great Britain are either visibly declining in their exports or maintaining themselves with increasing difficulty. The highest point of their prosperity was in most cases reached between the years 1880 and 1890. The *total* value of British exports has not, indeed, fallen in the same way as the values of these particular exports; and this means that their place has to some extent been taken by other exported goods. What these goods are we shall soon see.

It is sufficient in this place to show the dwindling

importance of what have, until recently, been the staples of English manufacture for export. The three chief textile industries have contributed the following proportions of English exports:—

	Per cent.
1872	59·3
1879	47
1890	40
1898	34·7
1900	31·9

While the metal industry contributed—

	Per cent.
1872	18·34
1879	15·40
1890	17·21
1898	12·40
1900	15·42[1]

The fundamental explanation of the dwindling conditions of English exports—dwindling beyond all controversy in proportion to the sum total of the world's trade—is, of course, to be found in the fact that other countries, which were expected to remain indefinitely suppliers of food and raw materials, have entered on a large scale on a career of manufacturing for themselves, and ultimately for any outside markets that they can

[1] These figures are derived from Professor Wagner's "Agrar- und Industriestaat (2nd ed., 1902), p. 210. The form of the preceding part of this chapter was suggested by ch. vi. of Professor Wagner's book; but the statistical material has been independently worked over.

themselves capture. Adam Smith's doctrine had been a general one of international division of labour, without any very definite indication of the shape it might be expected to take. With Cobden and the Manchester school it was associated with a very confident anticipation that for an undefined time to come the international division of labour would be between food and raw material producing countries on the one side and manufacturing countries, primarily England, on the other. England was believed to possess great natural "advantages" which suited it for manufactures—and especially the presence of coal and iron in the vicinity of one another. This, it must be noted, was a relatively true proposition in what may be called the Wolverhampton period of the iron industry. But it can hardly be denied that other countries also possessed the physical prerequisites for the successful carrying on of, at any rate, certain of the great industries; and with Adam Smith's concession that the advantages of a country were sometimes only "acquired," and John Stuart Mill's express allowance that temporary protection was economically justifiable to shelter a young industry, it would have been surprising indeed if other countries had not attempted to develop their resources. There is this further consideration: a country might perhaps be induced to abandon an effort to manufacture for itself if it found that it could not produce the goods in question as cheaply as they

were sold by the manufacturers of other countries to the consumers in those countries. But just as it will pay a manufacturer or merchant to cut prices for a time below what will give him the ordinary profit, or even to a point involving actual loss, if thereby he can drive out of business a rival manufacturer or merchant, so it may pay to "dump" goods on a foreign market if thereby a dangerous competition can be destroyed. This "dumping" of which we have heard so much of late is nothing new. It is the ordinary outcome of mercantile ethics—the ethics of industrial war. We shall see later the special forms it is now taking, and the way in which, on the vastly larger scale of recent production, it is sure to affect this country. All that we need to note here is that the policy of selling abroad for a time cheaper than at home was naturally resorted to, when it seemed expedient, by English manufacturers in earlier decades, just as it was later by German manufacturers to secure sale in Russia, and more lately by American manufacturers to dispose of goods in England. Indeed, a German economist, writing in 1897, before we in England had begun to complain of being dumped upon ourselves, expressly designates the policy of low foreign prices as "the German-English system."[1]

But oddly enough, while such a policy always seems fair to the assailant, it never seems fair to

[1] Oldenberg, "Deutschland als Industriestaat," p. 25.

the assailed ;[1] and the outcry of the threatened infant industry always finds an echo in public sentiment. And so the policy of high protection which one country after another resorted to in the 'seventies, after a brief trial of relatively free trade, was in large measure the outcome of a feeling of international *resentment*, which was certainly human enough.

It must be added, to be just, that the anticipations of the Manchester school concerning the course of international division of labour have been not much more falsified by events than those of the founder of scientific protectionism, Frederick List.[2] List held that there would be a permanent division of labour between the temperate and the tropical zones, and that the former would remain the exclusive seats of manufacturing industry of the modern type. It looks at present as if this were going to be true only of the metal industries in parts of the tropical zone. South America and tropical Africa have apparently little, if any, coal or iron ore ; elsewhere—as, perhaps, in India and China—the chief difficulty, the need for a strenuousness of labour impossible to procure in very warm countries, may be diminished by

[1] Of course, as Mr. Carnegie observes, speaking of the "dumping of surplus" upon the American market by English makers in earlier decades, "it forces the home makers to accept for their entire output the extreme low rates which had only to be taken by the invader for a small part of his."—"Empire of Business," p. 230.

[2] As Oldenberg also points out.

technical improvements.[1] But as to the chief textile manufacture, that of cotton, experience is now abundantly proving that it can be profitably established without protection, even in very warm countries, if they have easy access to the raw material; and the cotton plant seems to thrive in most warm countries. The growth of cotton manufactures in Brazil and Mexico[2] may be ascribed to protection; but in India it has been enormously rapid, without any assistance from a tariff, and this is a cause of natural disquiet to Lancashire manufacturers. Between 1877 and 1895 the number of spindles rose from under 900,000 to over 3,800,000; in the five subsequent years they have risen to over 4,900,000. As a result, "the imports into India, and also into China and Japan"—which are now largely supplied from India—"of the coarser counts of English yarn have greatly fallen off within the last twenty years"; in the last decade the decline has been almost a fourth (from 49¼ million lbs., the annual average of 1890—1892, to 38½ million lbs., the average of 1900—1902).[3]

[1] *Cf.* Ballod in "Schriften des Vereins für Socialpolitik," lxxxxi., p. 183. Ballod concedes too much, I think, as to the impossibility of iron manufacture.

[2] For which some figures are given in Krapotkin, "Fields, Factories and Workshops," p. 24.

[3] These are the figures of Mr. Helm, Secretary of the Manchester Chamber of Commerce, in a "Survey of the Cotton Industry," as optimistic as possible for England, in the Harvard "Quarterly Journal of Economics," May, 1903.

Lancashire manufacturers comfort themselves with the observation that hitherto Indian yarn has consisted almost entirely of the "lower counts" or coarser sorts; although as a matter of fact it is in the "counts above 20" that most progress has taken place of late years in India (from 41 million to 70 million lbs. between 1896 and 1901). There has been a noteworthy increase also of machine weaving in India, though hitherto not so alarming to Lancashire interests; but the instance of Indian spinning is sufficient to illustrate the present argument. An example from another textile industry could be found in the jute mills of Calcutta.[1]

So much, then, for the cruder and popular form of the doctrine of natural advantages as held by Adam Smith and the Manchester school. I have already said that there was a subtler form of the doctrine taught by Ricardo. According to this, international trade, if left free, is determined, not by absolute advantage, but by relative advantage. A country might be able to produce each of an indefinite number of commodities as cheaply or even more cheaply than another; but if it could produce one particular commodity more cheaply than all the rest, it would do well to devote itself to that and import the others. Thus, even if it could produce several things quite as advantageously as another country, it would be unwise

[1] Increase of spindles from under 96,000 in 1885 to over 315,000 in 1901.

to set about it, since thereby it would sacrifice the greater differential advantage obtainable in the one peculiarly suitable manufacture. That this doctrine contains an element of truth cannot be denied; it will be seen later that it is by no means a comforting one for England under present circumstances. But it was never, so far as I know, made use of by the orators of the Free Trade movement, and it has remained an almost esoteric doctrine of a few abstract English economists. A nation could hardly be expected to shape its policy toward so extreme a specialisation as this doctrine logically implies—and in any case all great nations but England have quite disregarded the theory—and we have now to deal with countries each marked by a diversified and not by a specialised activity.

It used to be argued by Carey and the American protectionists that it enriched the character of a nation to widen its range of industrial interest. We to-day are perhaps more alive to the social evils which manufactures seem to bring in their train. But it is apparent that a diversified industry, when once it is established, has one great economic merit. It is in a lesser degree the same advantage for a whole nation as it is for a town not to be dependent on one industry. Even assuming that a specialised industrial nation will not find its market slip from beneath its feet, it remains subject to the unmitigated force of the fluctuations of a single trade. It is true that waves of depression

are commonly widespreading; but they do not reach all industries just at the same time, and what is a commonplace of sociological observers with regard, for instance, to the diversification of occupation in a city like Birmingham is capable of much wider application.

The diffusion of manufacturing industry over the world has been greatly assisted in the past, and is likely to be assisted far more in the future, by two sets of forces which deserve more attention than they have as yet received. The first is the profit-seeking tendency of capital, which pursues an immediate gain without any regard to the ultimate effect on national prosperity. In several different ways has the business enterprise of England—in a less degree and more recently that of other manufacturing countries also—assisted the foreign customers to dispense with foreign imports. This assistance at first took the form of the exportation of machinery for the manufacture of the same sort of goods, and this process is still going on. With the machinery has frequently been exported the skill necessary to manage it at first and to instruct the foreigner in its use.[1] The significance of this educational service to backward countries has been pointed out by two observers, who—poles asunder as they are in their social attitude—resemble one another

[1] In one case, that of Park, Brother & Co., of Pittsburg, in 1862, "several hundred English workmen were imported to insure success."

in their large acquaintance with economic fact and in their freedom from conventional judgments. "Japan and China," says Mr. Carnegie, "are building factories of the latest and most approved character, always with British machinery and generally under British direction. The jute and cotton mills of India are numerous and increasing. It is stated that one British manufacturing concern sends abroad the complete machinery for a new mill every week."[1] "English and German capitalists, English engineers and firemen," says Prince Krapotkin, "have planted within Russia the improved cotton manufactures of their mother countries; they are busy now in improving the woollen industries and the production of machinery; while Belgians are rapidly improving the iron trades in South Russia."[2] And, as the last-named observer points out, the new producers start with advantages in the possession of the latest and best machinery, which only the most up-to-date plants in the older manufacturing countries possess.

"In proportion as the wave of industrial production penetrates into younger countries, it implants there all the improvements due to a century of mechanical and chemical inventions; it borrows from science all the help that science can give to industry. The new manufactures of Germany began where Manchester arrived after a century of experiments and gropings; and Russia begins where Manchester and Saxony have now reached."

[1] Carnegie, "Empire of Business," p. 317.

[2] Krapotkin, "Fields, Factories and Workshops," p. 10.

Equally important with the exportation of machinery and skill has been the investment of capital abroad; and it is this which has been most noteworthy in recent years. There has long been a good deal of investment of British capital in foreign works—thus the development of the railway system of the United States, which has done so much to stimulate manufactures in that country and in particular has reacted on the British agricultural interests by the cheapening of the transportation of grain, has been to a considerable degree encouraged by British capital. But in more recent years, with the heightening of the tariff walls of other countries, there has been a movement of capital of a still more ominous kind—viz., the establishment by English manufacturers of factories within the protected area. Anyone who is acquainted with an English staple industry can at once furnish the names of several firms which have adopted this policy. I understand that this is the case, for instance, in the woollen industries, with the firms of J. F. Firth & Sons, of Heckmondwike (carpet making), and Sir Titus Salt, Bart., Sons & Co., Limited, of Saltaire (dress goods, &c.), in the United States; of Isaac Holden & Sons, Limited, of Bradford (wool combing), in France; and of W. and J. Whitehead, of Bradford (worsted spinning), in Spain. In the cotton industry the Fine Cotton Spinners' Association have two or three mills in France; and Coats' is said to have a thread mill

in Russia. In order to benefit by the fact that the German duty on yarn is considerably lower than that on thread, a Belfast linen firm has established thread works in Germany, where it twists, bleaches, dyes and finishes the yarn which it imports. In the metal and machinery trades the names occur to one of J. J. Savile & Co., of Sheffield (steel), with their works in Russia, and of Messrs. Weir, of Glasgow (ships' pumps), with their works in Germany).[1]

It must be readily granted that American capital and German science have also to some extent imported themselves into England; but viewing the process as a whole it cannot but be regarded as an important factor in the destruction of England's earlier monopoly. It must be granted, again, that there is often some force in the argument of the concerns engaged that in any case the foreign market is lost to English goods. But by educating the foreign nation to higher standards of excellence in manufacture they assist the infant industry in its struggle towards maturity. And it should be observed that they furnish the protectionist with some additional theoretic arguments which are well worth weighing. Adam Smith argued that protection could only divert capital from one industry to another; the protectionists can reply that in many

[1] On this as a contribution towards the development of the shipbuilding industry in Germany, see Schwarz and Von Halle, "Schiffbau-Industrie," ii. 219.

instances it has attracted fresh capital into the country. Adam Smith, again, relying on the tranferability of capital, expected that the lessening prosperity of one particular home industry owing to foreign competition would result in the transference of capital to another home industry. But, as we have seen, it may lead to the transference of capital to the same industry in another country.

The second influence which ought to be noticed is the increasing use of more or less automatic machinery. The staple export industries of Great Britain used to call for large quantities of fairly skilled labour. In several of the great industries of to-day the tendency seems to be to replace this fairly skilled labour by, on the one side, a relatively small quantity of more highly intelligent labour in places of some responsibility, and, on the other, a large force of labour of a much lower grade of skill. It looks as if these manufactures in the future, instead of a great deal of quality B, will want a little of quality A, and the rest of quality C. Here we may listen again to Mr. Carnegie. We may not all agree with his political ideals; but we can recognise in him a man of the keenest insight into the conditions of modern production:

"The mechanical skill of old is not now generally required, but, where necessary for a few positions in each huge factory, is readily obtained from the older manufacturing lands. Automatic machinery is to be

credited as the most potent factor in rendering non-essential to successful manufacturing a mass of educated mechanical labour, such as that of Britain or America; and thus making it possible to create manufacturing centres in lands which, until recent years, seemed destined to remain only producers of raw material."[1]

One remembers how the inherited skill of the Lancashire operative or the Midland ironworker used to be eulogised as one of the sources of British industrial supremacy. No doubt it has been an important element in the situation until a very recent time, and it still enables us to dispute the ground inch by inch. It is probable that there are some industries of comparatively small output, in which a high average quality is necessary, in which it will continue to be a determining factor. But it can no longer be relied upon as in past decades.

Some Lancashire writers, I notice, are inclined to minimise the danger which threatens their eastern markets from the rapid spread of the cotton manufacture in the southern United States. How serious this danger is may be gathered from a few figures. The yearly average of American exports of cotton goods rose from 14,000,000 dollars in the five-year period 1892—1896 to 21,000,000 dollars in 1897—1901. Three-fifths of the total export came from southern mills; and it is significant of the vast changes which have come over the face of the world that half the

[1] Carnegie, "Empire of Business," 319.

total export was sent from the mills of South Carolina, a State which used to be the great champion of free trade so long as it wished only to export its cotton in the raw state.[1] In one market, that of China, the sale of American sheetings, drills, and jeans has already far outstripped that of English goods. Thus the number of English pieces of drill imported into Shanghai fell from 270,000 in 1891 to 91,000 in 1901, and of sheeting from 845,000 to 434,000; while American imports increased, in the former case from 856,000 to 1,639,000 and in the latter case from 2,008,000 to 2,827,000.[2]

Under these, on the face of them, alarming circumstances, the representatives of Lancashire comfort themselves with this among other considerations: that the new southern mills have hitherto derived their labour in large measure from the race of domestic handloom weavers in the mountains of Kentucky and North Carolina, who bring with them "the deftness necessary in the handling of threads," and that the supply of this labour is almost exhausted. But no one who has watched the streams of French-Canadians, and more recently of "Assyrians" and miscellaneous people from the Levant, who now enter the cotton

[1] "Twelfth Census of the U. S.," 1900, ix., pt. iv. (1902), pp. 24, 25.

[2] Chinese Customs Returns, abstracted by the editor, in the "Quarterly Journal of Economics," May, 1903. The figures below the thousands are here omitted.

mills of Lowell, in New England, can derive much consolation from this argument. If the cotton mills of the southern States can find a market for their goods, they will probably have little difficulty in getting the labour—negro or European or Asiatic — that they require; and automatic machinery makes it increasingly unnecessary that the labour should be of a high order.

We have thus seen how the economic development of the world has taken a direction very different from the anticipations of the Manchester school, and we have noticed some of the reasons, in justification or excuse, for the policy of diversified rather than specialised industry. It next becomes necessary to consider what the outlook is for Great Britain so long as the present policy continues of free imports and Imperial disintegration.

CHAPTER IV.

THE OUTLOOK UNDER THE PRESENT POLICY.

In endeavouring to state the outlook for British industry under the present policy, I must begin by invoking one or two well-known economic principles. Over against the "law" or "principle" of "diminishing returns" in agriculture, many economists have been in the habit of setting up "a law of increasing returns" in manufacturing industry. We need not stop to consider how far these two principles are comparable, or in what sense either of them can be called a "law." All that we need do is to accept the generalisation from observed fact that, speaking broadly, the larger the scale in many industries on which manufacturing operations are carried on—the greater the investment of capital—the larger will be the proportionate output and the larger the profitableness of the undertaking. How this is brought about varies from case to case. In some cases the bigger scale of operations enables the raw materials to be obtained more advantageously; in some it secures cheaper transportation; in some it allows of a more perfect division of labour; in some it enables the produce

to be more advantageously marketed. To drop the phraseology of professors and use the language of men of affairs: "One essential for cheap production is magnitude." An example may be added from the same source: "Concerns making one thousand tons of steel per day have little chance against one making ten."[1]

German economists have of late been elaborately comparing the natural situation of their own country and the United States in relation to the supplies and location of iron ore and coal; and have tried to persuade themselves that after all their country is not so much worse off than the United States, if at all. English economists might do the same for England, with even more reassuring results. The ore of Spain and Sweden is not further from Cardiff and Middlesbrough than that of the Lake Superior district is from Pittsburg; and it ought to be possible to transport it just as cheaply. The technical advance of America, in the way of automatic machinery and "continuous processes," should in itself be capable of imitation in this country. And the mitigation of unnecessary competition and the consolidation and "integration" of business are being forced upon us in this country, as in America, by hard experience; and men like Mr. Arthur Keen are beginning to do for us what men like Mr. Carnegie have done for the United States.

But obtain as we may for Great Britain all the

[1] Carnegie, "Empire of Business," p. 233.

other advantages now possessed by the United States, in the way of technique and of business organisation, there is one advantage which we shall be less and less able to enjoy, so long as the country abides by its present policy—and that is the advantage of the vaster market. This is what is implied in the old phrase of the economists —"division of labour is limited by the extent of the market." But not the division of labour only: many of the other steps which render feasible economies of production are possible only if the market will allow of production on a large scale. The United States already possesses a much larger population than Great Britain, a population moreover, as a whole, on a somewhat higher level of comfort, and therefore furnishing a more intense "effectual demand." Even supposing the same amount of concentration of capital, relatively, to be brought about in this country as in America, the average size of concerns in this country would be less than in the United States, because the market to be divided is smaller. As a result the cost of production in America per unit would necessarily be less. All this on the supposition that the English manufacturer is as sure of his home market as the American is of his, and that there is no inroad of foreign goods. But with the American market fenced round by a high tariff, and the English absolutely free, even this is not the case.

The significance of the English open market and its reaction upon the conditions of production

can only be fully brought out by reference to another principle, but that one which, as yet, has not been so generally recognised by economists. It has long been realised that in times of depressed trade, when the market is glutted, it is often expedient to sell goods abroad at "slaughter prices." It may be well to dispose of them abroad at any price which will get rid of them, in order to prevent their continuing to press on the home market. When the home market is the chief permanent outlet for the product, a considerable immediate temporary loss may be quite worth suffering in order to avoid the greater loss of lower domestic prices and their subsequent slower recovery. It is only another form of the same policy of restricting the supply which used to lead the Dutch merchants in the East Indies to destroy part of the spice crop when the market was in danger of glut. A good instance of the operation of this policy will be found in the Report on Cotton Manufactures in the last United States census. Speaking of the years of depression 1893 and 1896 it uses this significant language:

"For the first time in the history of American cotton manufacturing, *the domestic market was* more than once *relieved and steadied* by the exportation of goods to foreign markets. This statement does not signify that the export of domestics is a new thing . . . but that for the first time the existence of an important outlet for such goods saved manufacturers from a disastrous glut."[1]

[1] "Twelfth Census of the U. S.," vol. ix., pt. iii., p. 21.

This is obviously a game that all manufacturing nations can play; but it will be played with most "relief" to itself and most damage to manufacturers elsewhere by that country which has the largest periodical surplus: and that will be the country which, manufacturing for the largest demand, has normally the largest product.

So far we have not gone beyond an ordinary *commercial* phenomenon. The forces of self-interest work in the same way in *manufacturing* enterprise —and this is the new point to be observed—with the more intensity as the element of *fixed capital* increases. "Fixed capital," and therefore "fixed charges," with all their consequences, form just that part of the modern productive process which is in most urgent need of consideration by the economists, and in which the older economic doctrines require most correction. When Adam Smith wrote, "the undertaker," the business man on a large scale, was primarily a merchant; there was little manufacturing capital. With the introduction of machinery, far more capital had become fixed, by the time of Ricardo; but as it happened, the kind of business Ricardo knew most about was banking, in which fixed capital is comparatively small. Yet the further and further fixation of capital, as "plant" has become more expensive and complex, makes necessary a complete revision of the ordinary doctrine of exchange value. The credit of having first pointed this out belongs, I believe, to Professor Hadley (now President of

Yale University), in his remarkable book on "Railroad Transportation" (1888), and I will quote the whole of his argument and illustrations. Perhaps I may add that I should myself be inclined to phrase the conclusion a little differently and say, not that the cost of production doctrine is incorrect, but that it requires a new interpretation. But the practical result is the same.

"We accept almost without reserve the theory of Ricardo that, under open competition in a free market, the value of different goods will tend to be proportional to their cost of production. According to this idea, if the supply of a particular kind of goods is short, and the price therefore so high as to be greatly in excess of the cost of production, outside capital will be attracted into the business until the supply is sufficiently increased to meet the wants of the market. But as soon as this point is passed and the price begins to fall below cost of production, people will refuse to produce at a disadvantage, the supply will be lessened, and the price rise to its normal figure. If all this be true, competition indeed furnishes a natural regulator of prices, with which it is wicked to interfere.

"It was approximately true when Ricardo wrote; but, in the business of to-day, one point in the chain of reasoning fails, and the whole breaks down with it. *It is not true that when the price falls below cost of production people always find it for their interest to refuse to produce at a disadvantage.* It very often involves worse loss to stop producing than to produce below cost.

"Let us take an instance from railroad business,—here made artificially simple for the sake of clearness, but in its complicated forms occurring every day. A railroad connects two places not far apart, and carries

from one to the other (say) 100,000 tons of freight a month at 25 cents a ton. Of the $25,000 thus earned, $10,000 is paid out for the actual expenses of running the trains and loading or unloading the cars; $5,000 for repairs and general expenses; the remaining $10,000 pays the interest on the cost of construction. Only the first of these items varies in proportion to the amount of business done; the interest is a fixed charge, and the repairs have to be made with almost equal rapidity, whether the material wears out, rusts out, or washes out. Now suppose a parallel road is built, and in order to secure some of this business offers to take it at 20 cents a ton. The old road must meet the reduction in order not to lose its business, even though the new figure does not leave it a fair profit on its investment; better a moderate profit than none at all. The new road reduces to 15 cents; so does the old road. A 15-cent rate will not pay interest unless there are new business conditions developed by it; but it will pay for repairs, which otherwise would be a dead loss. The new road makes a still further reduction to 11 cents. This will do little toward paying repairs, but that little is better than nothing. If you take at 11 cents freight that costs you 25 cents to handle, you lose 14 cents on every ton you carry. If you refuse to take it at that rate, you lose 15 cents on every ton you do not carry. For your charges for interest and repairs run on, while the other road gets the business.

"If it be objected that such a case could not occur in actual practice, the answer is that it does occur constantly, and almost as a matter of course when the competing road is bankrupt. 'Business at any price rather than no business at all' is the motto of such a road. It has long ceased to pay interest; it can pay for repairs by receiver's certificates; and it will take freight at almost any price which will pay for the men to load the goods and the coal to burn in the engine. . . . Ricardo's theory was based upon the assumption that when payment fell below cost of

service active competition would cease. His theory fails, because, far below the point where it pays to do your own business, it pays to steal business from another man. The influx of new capital will cease; but the fight will go on, either until the old investment and machinery are worn out, or until a pool of some sort is arranged.

"*The railroad may serve as a type of modern business. Wherever there are large permanent investments of capital we see the same causes at work in the same way.*

"In the year 1870 the Philadelphia price of No. 1 pig-iron averaged $33.25 a ton, which probably represented just about the cost of production, including a fair return on the investment. The American product for that year and the next was about 1,900,000 tons each. But through 1871 and the greater part of 1872 prices were rising; the average for September, 1872, was $53.87. Large profits like this attracted capital into the business; the product for 1872 was 2,855,000 tons, and for 1873, 2,868,000 tons. So far, Ricardo's theory worked well. Then prices dropped faster than they had risen. December, 1873, they were $32.50 a ton; December, 1874, they were $24.00. For the year 1878 they averaged but $17.62. But the iron men could not restrict their production as fast as they had increased it. To allow their furnaces to go out of blast was to allow their business to go to ruin. They continued to produce at a great loss, and to fight more desperately the greater the loss became. Some concerns succumbed, some pulled through to see more prosperous times. But for a period of six years millions of tons of iron were produced and sold below cost, their owners being thankful if the price paid would cover raw materials and wages, without any regard to interest or renewal. The same thing is probably true of the steel rail business to-day (1888)."[1]

[1] Hadley, "Railroad Transportation," pp. 69—72.

[*Cf.* also D. A Wells, "Recent Economic Changes" (1889), pp. 72—74.]

As businesses come to involve greater and greater permanent investment of capital, their policy inevitably approximates to that of a railroad company. What is true, moreover, of low prices produced by competition is just as true of low prices produced by industrial depression. And of course a foreign demand is just as welcome as the domestic if it will contribute in any degree to fixed expenses. And thus to the "dumping" due to the commercial desire to "relieve the market" is to be added the "dumping" due to the inexorable needs of fixed capital. And although in a very "long run," indeed, things may "right themselves," the process may be indefinitely delayed and a concern may go on for several years without paying any dividends. Even if the resort to prices below the normal "cost of production" is only for a brief space, it may be quite long enough to do irreparable damage to competitors.

But now we must go on to add a further consideration. Both because fixed charges do not always increase in proportion to output, and because, according to the principle of "increasing returns," a large production is usually cheaper per unit in other ways than a small one, it will usually be much more profitable to run works at full than at half power. Hence a foreign sale at a very low price added to a home sale at a higher price may produce a greater net profit than the home sale alone at the high price, since its cost

of production would then be relatively higher. These considerations would justify, under certain circumstances, a policy of permanently lower foreign prices, and not simply an emergency policy. The only reason why we have not heard of it so much is that in times of prosperity the American producer is so busily occupied in meeting the home demand at very profitable prices that he does not need the additional foreign outlet.

And now one last consideration, for the problem of dumping needs much more analysis than it has hitherto received. Foreign prices, whether in times of emergency or as a permanent policy, cannot be lowered by an amount greater than the cost of retransportation, unless the home market is protected by an import duty. Moreover, the policy can best be carried out, when the producers at home are so united, by way of Cartel, Trust, or some other form of combination or market control, that they can benefit to the full by the tariff wall and not endanger domestic prices by their own internal competition. This is notoriously the case with the United States and Germany; and this is why the pressure of low prices has made itself felt or feared in England with so much greater intensity of late years.

The theoretical considerations above stated may savour of the lecture room: they will, perhaps, carry more conviction when we hear them stated by great American business leaders. It will be seen that we have here to do not with anything

abnormal, but with the inevitable consequences of modern industrial organisation.

Let us quote first the evidence in May, 1901, before the United States Industrial Commission, of Mr. Charles M. Schwab, then President of the United States Steel Corporation:

"Export prices are made at a very much lower rate than those here; but there is no one who has been a manufacturer for any length of time who will not tell you that the reason he sold, even at a loss, was to run his works full and steady. That has been the chief thing regarding all these companies in their export business. For example, export in very busy times like these is comparatively light, because we have been able to run full, and it is maintained more for the purpose of keeping in the foreign markets than for any other reason. When we have as much as we can do at home, as we have to-day, people are not anxious to sell materials at low prices. But *when our mills are not running steadily and full, we will take orders at low prices, even if there is some loss in so doing, in order to keep running.* . . .

"Last year about this time, when we had our great dropping off in demand for steel, there were very heavy tonnages sold for export abroad and made at very low prices—I think probably as low prices as were ever made—because American manufacturers felt that we were going to have a protracted period of dull business here and they were justified in taking the risk, and hence we did. I did personally. I contracted for a great deal of steel to be shipped abroad. In view of the great home demand that immediately followed we were almost unable to ship it. That was one of the risks that the business man has to take to insure his works running full. *We would rather be sure of running our works full at a known loss than not to run them at all.*"[1]

[1] "Report U. S. Industrial Commission," xiii. 454.

Here Mr. Schwab was simply setting forth the policy that had already been adopted and carried out by the greatest constituent of the United States Steel Corporation, viz., the Carnegie Steel Company. This is clearly stated in the following evidence by Mr. Guthrie, President of the American Steel Hoop Company, before the Industrial Commission in October, 1899:

"The Carnegie Steel Company were practically the pioneers in exporting steel. They were doing it to make a market. They started largely in 1893. They wanted gold and could not get it. Everything was shut up and they came to us—I was in Naylor & Co. at the time—and we were exporters and importers of steel, and we sold it on the other side. They proposed to sell for 20 per cent. less than it sold for at home, lower than their cost price; and it was done to keep things moving.

"Q. Haven't you found it advisable to . . . put out your surplus abroad at a lower rate?—A. We expect to.

"Q. So that *you want to make a dumping ground of England, do you not;* a dumping ground for yourselves?—A. *Not especially Germany and England, but their colonies.* We do not care particularly to go to Germany and England; we have other places. We want our shipping lines to put us on an equality. If we can get rates to the ocean and have our own ships to South America and across to England and the Continent, we can go anywhere, and even if we have to sell at cost we keep the mills and the men busy.

"Q. Is there any relation between this matter of export trade and the making of a great organisation such as yours compared with the smaller individual companies?—A. By having an organisation such as we have we are able to employ agents all over the world and go to the expense of pioneering for business

as a smaller concern could not. They could not afford with a tonnage of 10,000 a month to send a man abroad, but with 60,000 or 70,000 tons a month we can send men all over the world and make money by doing it; it is perfectly clear.

"Q. How do you manage to undersell the Englishman in the English market?—A. Cut his prices, usually.

"Q. You must certainly have a saving and better machinery or advantage in output?—A. The great advantage is the raw material. England's coal price is $4.50 and coke $5.50; our coal is $1.50 at Pittsburg, our ore costs less, and transportation rates on the lakes are lower than anywhere else in the world. Just now is an exceptional time, and the demand is ahead of the supply.

"Q. In ordinary times you can keep up American wages and beat the Englishman in his own market. —A. Without the slightest doubt; we can whip him and make money.

"Q. When you take the general run, you think Americans are able to compete with the English and Germans in their own market?—A. Without the slightest doubt, and make a profit.

"Q. You can lay down steel rails, for instance, in China cheaper than an English or Belgian or German firm?—A. We are doing it right along.

"Q. And build bridges in Egypt, I suppose? A. Yes, and everything else. The truth of the matter is, the Creator of all things has been good to us. We have the raw material, the coal, the coke, the ability, the intelligence, and we are pushing it for all it is worth; and I think *it is only a question of time, and a very short time, when we shall control the iron and steel markets of the world.* I have one partner over there in the North-eastern Steel Company and another with Dorman, Long & Company, and they have absolutely given up the idea of competing with us if it comes to a close fight."[1]

[1] "Report U. S. Industrial Commission," i. 955—6.

It should be added that this witness was of opinion that in pursuing this policy American steel producers were but following European example.

"My idea is that the English and German manufacturers invariably make a dumping ground of America when they are slack of work; *they distribute their fixed charge over a full tonnage;* they get their profit out of the home trade and dump their surplus into America. . . . We want to take a leaf out of the book of the German and the Englishman, and we want to send stuff abroad."

And he urged the maintenance of the tariff in order to exclude English competition from certain points.

"The effect of the tariff in our special line of business is very material. We ship our products from one end of the United States to another. We ship to Maine and San Francisco, Seattle and Galveston. We go from one port to the other with cotton ties, bands, everything of that kind. We have a rate of freight which is higher from Pittsburg to the ocean points than the Englishman can send the stuff for. He can ship for four, six, eight shillings a ton to Galveston, Charleston, or any of these ports; and our freight from Pittsburg is heavier by railroad than the freight across the water. Now, if we had not that tariff it would mean that we should have to meet that price"; and, after the reference to English and American dumping before quoted, he concludes: "We can

manufacture more cheaply than anywhere else in the world . . . but *we could not reach all over this country and compete with the foreigner in certain ways if we had not a tariff.*"

And, finally, we may listen to this statement of "business principles" by Mr. Gates, President of the American Steel and Wire Company, in his evidence of November, 1899:

"Q. Have you been able to compete with the English manufacturer in this same way?—A. Yes; our London office sells perhaps 60 per cent. of the wire sold in Great Britain; I think it does. We started our office in London in 1893 and figured at that time that the annual expenses of running the London office, including clerk hire and rent, ought to be about £1,500 a year, $7,500. In the year 1899 the cost of operating the London office will be probably £15,000 a year. We are doing an average business in London of $15,000 to $20,000 a day.

"Q. How does the export price compare with the price to the American consumers?—A. We are selling to the markets of the world at a less price than at home.

"Q. Will you kindly explain the business reasons for doing that?—A. *The business reason* for doing that *is that by working up a foreign business we can operate our mills more fully, we can make our goods cheaper, and whenever the time comes that there is a decline of the home price it will not necessarily affect the foreign prices.* There are times when the export prices are higher than the home prices. Just at the present time our home prices, I think, are probably 50, 60, or 70 cents a hundred higher than our export. I do not really know just the difference, but I know there is a difference in favour of export to-day. At times it is the other way. *But by manufacturing, say, 200,000 tons of wire per annum to export to all parts of the world we*

cheapen the entire cost of manufacture very materially. By doing that we are able to give the consumer at home a lower price in the long run, and employ perhaps 25 or 30 per cent. more workmen, so that in the long run we figure that it will equalise itself. Our home prices and our foreign prices are never necessarily on a parity; one might be higher and the other might be lower; it would depend entirely on circumstances."[1]

Hitherto I have said nothing of the payment by industrial combinations of quasi-bounties upon exports. This is because, so far as I know, this plan has never been resorted to by American producers; and it is from America that incomparably the gravest danger to English manufactures is to be expected. It has, indeed, been an important factor in encouraging the sale of German steel in this country during the last year or so; and accordingly I shall return to its consideration in the next chapter. But it is the sales of cheap American iron and steel in Great Britain in 1898, and the probabilities of a near future when American home demand shall slacken, leaving at work the gigantic plants, with their enormous capacity, that have lately been erected, which ought most to engage the attention of English statesmen.

To make our forecast complete of the future course of English industry under the present system, we must once more return to an economic generalisation or principle that has already been

[1] "Report U. S. Industrial Commission," i. 1015.

more than once referred to; and that is the Ricardian doctrine of international trade. According to this, each country exchanges with another, not necessarily those things in the production of which it has a positive advantage, but those things in the production of which it has a relative advantage. This doctrine has not sufficiently impressed the statesmen of the world to induce them to leave trade absolutely free; but it does seem to indicate the deep underlying forces that are at work. Things are exchanged in accordance with the differential advantages of production; but, as the world is constructed, those advantages are the balance of all the conditions created by national policy and business organisation, as well as by natural resources. And this reflection is by no means comforting to Great Britain.

The notion that foreign nations can sell everything to us and take nothing in exchange except money is, of course, one of the fallacies of popular protectionism. In the long run—unless the prosperity of a nation is very rapidly declining indeed, and when such a time comes there is not likely to be any doubt about it—goods are paid for by goods or services. On the other hand, the proposition that because we take foreign goods we are bound to produce something in exchange, and that it does not matter what, is perhaps an equally mischievous notion of popular free trade. So long as this country is dependent upon import for its corn, not to add its raw cotton, it must be

able to pay for them. The danger of the far distant future is not, I suppose, that we shall not be able to pay for them, but that the foreigner will desire to keep them for his own consumption. But this is not our present anxiety; and though the value of the exports of our chief staples is decreasing, the total value of our exports has been maintained, and has, indeed, in very recent years somewhat increased. Let us see what are the comparatively new exports which are taking the place of the old.

1. Vastly the most important is the export of coal, which has been growing with extraordinary rapidity, especially during the last two decades, while, as we have seen, other staple exports have been declining. The history of the matter is thus summarised in a remarkable paper read by Mr. D. A. Thomas, the well-known merchant and member for Merthyr Tydvil, before the Royal Statistical Society, May 19, 1903.

"Between 1850 and 1900, while the quantity of coal produced in the United Kingdom and retained for home consumption has rather more than trebled, or, *per capita*, a little more than doubled, the export, including coal shipped for the use of steamers engaged in the foreign trade, has grown fifteen-fold, and increased from a proportion of 6·8 per cent. to one of 26 per cent. of the total output. In value it *progressed from about 2 per cent. of the total of exports in* 1850 *to over* 16 *per cent. in* 1900, but it must be noted that coal prices ruled abnormally high in the latter year.

"After making every allowance for any exceptional circumstances operating in 1900, the figures in the

STATEMENT SHOWING THE GROWTH OF THE EXPORT OF COAL COMPARED WITH THAT OF PRODUCTION, ETC., FROM 1850 TO 1900.

	Production of Coal in the United Kingdom.	Export of Coal, Coke, and Patent Fuel, including Bunkers.	Percentage of Export to Production.	Remaining for Home Consumption.	Consumption per Head of Population.	Total Value of all Exports.	Value of Coal Exports.	Percentage of Coal Value to that of Total Exports.
	In million tons.	In million tons.		In million tons.	In tons.	In million £'s.	In million £'s.	
1850 ...	56·0*	3·8†	6·8	52·2	1·91	71·4	1·4‡	2·0
'60 ...	80·0	8·4†	10·5	71·6	2·49	135·8	3·7‡	2·7
'70 ...	110·4	14·1†	12·8	96·3	3·11	199·6	6·7‡	3·4
'80 ...	147·0	23·9	16·3	123·1	3·56	223·0	10·8‡	4·8
'90 ...	181·6	38·7	21·3	142·9	3·81	263·5	23·9‡	9·0
1900 ...	225·2	58·4	25·9	166·8	4·08	291·2	48·3‡	16·6

* Estimated.

† Including estimated quantity of bunker coal.

‡ Bunker coal not added to total values, but included here and estimated to be of the same average value per ton as exported coal.

preceding table point to a very great increase in the relative importance of our foreign trade in coal."

Mr. Thomas's figures do not reach beyond 1900; but it may be added that though values fell off in the next two years, the diminution in quantity was not considerable, and that in the first six months of the present year, "the total quantity of coal sent abroad, including bunkers, amounted to the colossal figure of 30,379,939 tons, which is at the rate of well over 60,000,000 tons a year"[1]—or more than the tonnage of 1900.

Mr. Thomas has prepared the following:—

TABLE SHOWING VALUE OF EXPORTS FROM THE UNITED KINGDOM, INCLUSIVE AND EXCLUSIVE OF COAL, IN MILLIONS STERLING AND PER CAPITA IN POUNDS, BY QUINQUENNIAL PERIODS FROM 1850 TO 1900:

	Total Exports.	Coal, Coke, &c.	Total (ex. Coal).	Per Capita (ex. Coal).
	£ millions.	£ millions.	£ millions.	£
1851—1855 ...	88·9	1·8	87·1	3·14
1856—1860 ...	124·2	3·1	121·1	4·26
1861—1865 ...	144·4	4·0	140·4	4·78
1866—1870 ...	187·8	5·4	182·4	5·96
1871—1875 ...	239·5	10·5	229·0	7·13
1876—1880 ...	201·4	7·9	193·5	5·71
1881—1885 ...	232·3	10·5	221·8	6·23
1886—1890 ...	236·3	13·0	223·3	6·05
1891—1895 ...	227·0	16·6	210·4	5·46
1896—1900 ...	249·1	22·3	226·8	5·61

[1] *Iron and Coal Trades Review*, July 10, 1903.

The figures supplement those we have already given of the *per capita* value of total exports, and they show that the decline since 1871—1875 would have been much more marked but for the contemporary increase in coal exports. Mr. Thomas's remark is only too moderate: "There is ground for something more than a suspicion that our exports, other than coal, both in respect to value and quantity, have become, at least for the time being, stationary, if not retrogressive."

To determine how far the decline has been one in quantities as well as in value, Mr. Thomas has been at the pains to ascertain the weights of ten of the heaviest articles of export (alkali, cement, cotton yarn, cotton manufactures, jute and linen manufactures, iron and steel, copper and brass, salt, wool, woollen and worsted yarn, woollen manufactures) for every quinquennial period between 1851 and 1900. He has then calculated their percentages, taking the weights of 1886—1890 as the basis, 100. As to this choice of base he makes the following observation, which confirms what has already been urged: "The quinquennial period 1886—1890 appears to give the culminating point in our exports (ex. coal) as regards quantity, though in respect to values, both actual and *per capita*, the highest point was reached five-and-twenty years ago." For the percentages thus reached the reader must refer to the original paper: we must content ourselves with the "resultant weighted index numbers" obtained

therefrom, which he makes use of to construct the accompanying diagram—one certainly of the most valuable that has been given to the public during the present discussion.

I do not know that any words can add to the significance of such a diagram. In exporting coal, Great Britain is evidently living upon its capital, for it can never be replaced; and, in the phraseology of Adam Smith, "what would be folly in the case of a family, can scarcely be wisdom in the case of a nation." It is conceivable, though very improbable, that some other method will be found equally satisfactory of generating energy; but to dispose of our coal on the slight chance that something of that kind may "turn up" may justly be described as "gambling" with the nation's resources. We are, indeed, running the same ultimate risk when we use up our coal in our own manufactures, but in this latter case we are not so quick about it. The irony of the situation is rendered, if possible, more acute by the consideration that the smokeless steam coal so precious for naval purposes, which forms a large part of the coal export, is among the most important of munitions of war; and that we haggle with Russia, for instance, over every "concession" in the East while we shall not hesitate to supply her with coal down to the moment of a declaration of war. The *Times* of July 28th last contains the following paragraph: "In connexion with the reports that Russia is storing vast supplies of steam coal at Port Arthur,

* DIAGRAM EXHIBITING THE MOVEMENT OF EXPORTS, 1851—1900; WITH THE PERIOD 1886—1900 AS THE BASIS (100).

(*a*) ——— *Percentage weight of ten principal articles of export (not including coal, coke, and patent fuel).*

(*b*) ——— *Percentage of aggregate value of exports of British and Irish produces, exclusive of that of coal, coke, and patent fuel.*

- - - - - - - *Do. per capita do. do.*

(*c*) ——— *Do. weight of coal exported only.*

(*c*) ——— *Do. value of coal, coke, and patent fuel.*

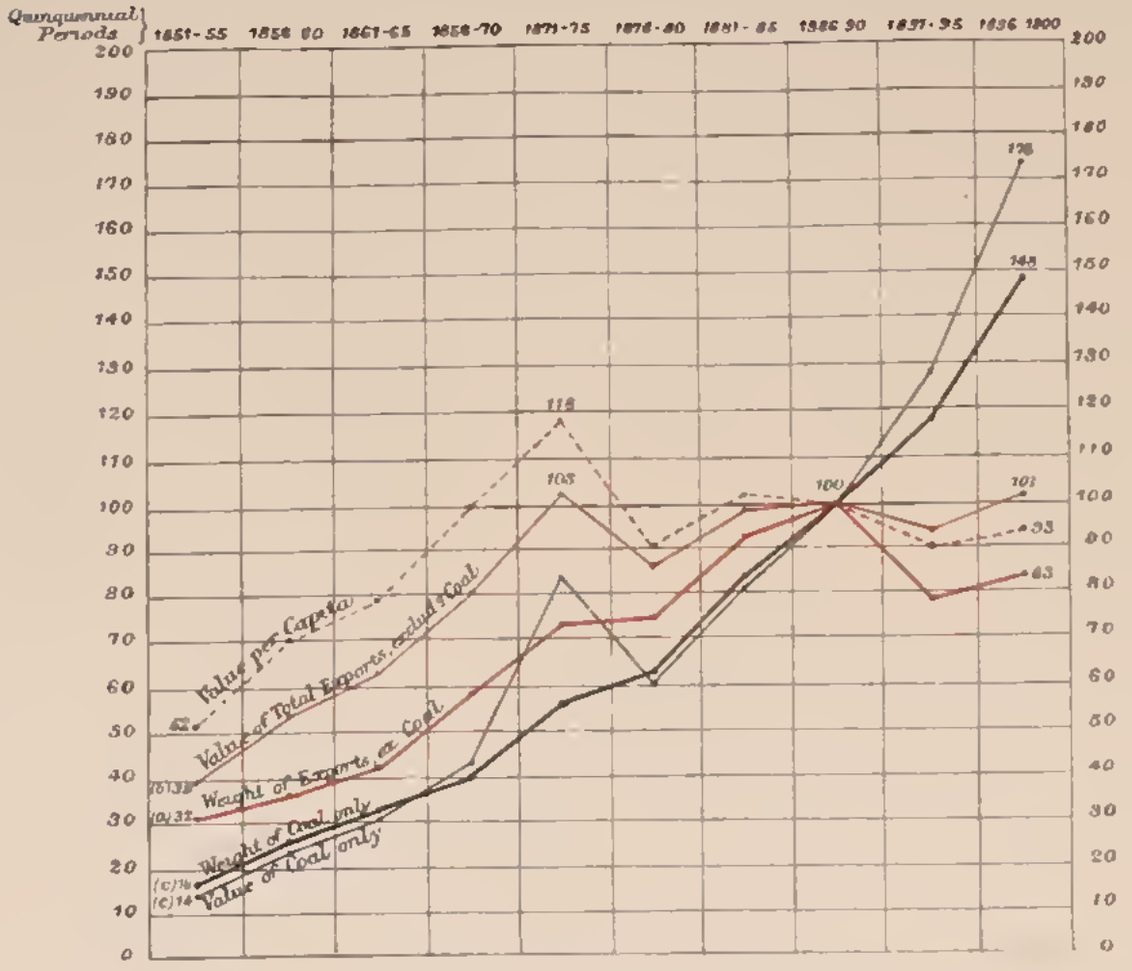
NOTE—(a) *The quantitative resultant index number has been arrived at by taking ten of the heaviest articles of export, including salt, iron goods, cotton piece goods, &c., and then giving metal goods, textile manufactures, and the other commodities the relative weight importance of* 22 : 7 : 10, *these being the proportions ascertained from the figures furnished by Mr. Williamson, of the Chamber of Shipping, of the weights of our exports in the standard period.* 40 *c. ft. of textile goods are taken as equivalent to one ton in weight.*

(b) *The value has been taken inclusive of parcels post, but exclusive of ships and ship's machinery sold to foreigners, as these were not included in the Board of Trade returns prior to* 1899.

(c) *In the value line the value of coal, coke, and patent fuel is taken, but in the quantity line coal alone is taken. In both cases exclusive of bunkers.*

* *This Diagram was compiled by Mr. D. A. Thomas (Lord Rhondda), to illustrate his Paper read before the Royal Statistical Society, and the Author is indebted to Mr. Thomas for permission to reproduce it here. Mr. Thomas's Paper, with Diagram, is contained in volume* 66 *of the Journal of the Royal Statistical Society,* 1903.

* DIAGRAM EXHIBITING THE MOVEMENT OF EXPORTS, 1851—1900; WITH THE PERIOD 1886—1900 AS THE BASIS (100).



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our South Wales correspondent writes that the Russian Government placed orders early in the year for about 80,000 tons of Cardiff coal, and delivery is steadily proceeding."

We may notice a growing export, which, although it is relatively very small in itself, is conveniently noticed here because it is a case of raw materials, and a case, also, of an irreplaceable natural resource, and that is potters' clay. While our exports of earthen and china ware have remained practically stationary since 1892, and, indeed, have never since quite reached the figure of that year (about £2,057,000),[1] we are exporting more and more clay. This is shown by the following figures:—

EXPORTS OF UNMANUFACTURED CLAY.

	£ thousands.		£ thousands.
1887	217	1895	347
1888	228	1896	381
1889	270	1897	385
1890	272	1898	406
1891	298	1899	451
1892	297	1900	482
1893	290	1901	484
1894	319	1902	507

2. But an equally grave phenomenon would seem to be indicated by the following table, which the reader is asked now to look at.

[1] In the export statistics before that year, bricks are included, so they are not comparable.

SEVEN GROWING EXPORT TRADES: VALUE OF EXPORTS IN THOUSANDS OF POUNDS.

	Apparel and Slops.	Pickles, Vinegar, Sauces and Condiments, Confectionery, Jams, and Preserved Fruits.	Oil and Floor Cloth.	Caoutchouc Manufactures.	Soap.	Furniture, Cabinet and Upholstery Wares.	Cordage and Twine.	Total.
1882 ...	4,169	1,220?	546	999	458	761	427	8,580?
1883 ...	3,633	—	597	1,070	449	706	435	
1884 ...	3,936	—	634	1,004	547	716	416	
1885 ...	4,161	—	611	910	472	649	383	
1886 ...	3,902	—	688	971	446	633	390	
1887 ...	3,947	—	661	1,070	452	573	370	
1888 ...	4,658	—	770	1,143	482	745	447	
1889 ...	4,978	1,319	819	1,125	503	856	490	
1890 ...	5,035	1,444	783	1,122	534	649	494	
1891 ...	5,150	1,372	833	1,242	571	591	437	
1892 ...	4,847	1,294	712	1,215	586	533	476	
1893 ...	4,259	1,102	706	1,185	644	521	400	
1894 ...	4,122	1,133	752	1,152	621	418	391	
1895 ...	4,525	1,236	857	1,190	756	517	428	
1896 ...	5,229	1,304	954	1,261	745	595	432	
1897 ...	4,980	1,318	1,041	1,230	761	629	382	
1898 ...	4,695	1,342	1,000	1,328	829	612	404	
1899 ...	4,636	1,428	1,164	1,388	941	574	488	
1900 ..	5,286	1,429	1,312	1,423	939	636	522	
1901 ...	5,571	1,550	1,298	1,262	999	633	534	
1902 ...	6,297	1,517	1,465	1,224	1,126	905	547	13,081

In order to prevent any suspicion of manipulation the figures have been given, where accessible, for each of the last twenty years; 1882, however, would be a bad year to begin with if one cared only to make out a strong paper case, for, as the figures of total exports given in the previous chapter show, it represents the crest of a wave of prosperity.[1] A little additional explanation will bring out the real position of affairs more clearly.

As to *apparel and slops*, the figure for 1882 is much in excess of previous amounts. With the exception of 3,711 in 1881, the export had never before reached above 3,400. Its range had usually been between 2,800 and 3,200 in the decade '70—'80, and between 2,000 and 3,000 in the decade '60—'70. The figures for the 'eighties and 'nineties, therefore, mean a considerable, and on the whole a steady, advance. The growing export of *oil and floor cloth* will be seen to have been very great and almost unbroken. In the 'seventies it had been between 300 and 400. The increase under the head of *caoutchouc* has been less marked, and it has fallen off a little of late. The export of *soap* has more than doubled, and the growth has been hardly broken. In the case of *furniture* the figure 761 for 1882 is very misleading. That was a most exceptionally large export. During the preceding decade the figures had ranged about 400, and in the decade before

[1] This is well brought out in the diagram in Bowley's "Statistics," p. 151.

that between 200 and 300. Thus, in spite of the depression of the 'nineties, the figures continue to show a larger export than twenty years before. The sudden jump in 1902 is explained by the reopening of the South African markets. The initial figures under the head of *cordage and twine* are also misleading; the figures for the preceding decades had been considerably lower.

Now, I believe that all these are cases in which the bulk of the labour employed is cheap and unskilled. There seems to be no information accessible which would enable one to say how far exactly this is the case in any particular trade. Probably there is a considerable variety of industrial conditions in each of the statistical groups. Thus in the tailoring trade, goods are made for export both in the "sweat shops" and by the "home workers" of the East End of London, and by the well-managed factories of Leeds and other provincial towns. I cannot learn in what proportion these contribute to the total exports; and it is said that the coat is sometimes produced under one set of conditions, the waistcoat and trousers each under an entirely different set, before they are exported as a suit. But it is very well known that much of the clothing which is produced in the East End of London under the most deplorable conditions is intended for the export trade. In the case of the other industries there is sometimes a good deal manufactured in small shops, domestic workrooms, and the

"homes" of the employés. The Report of a recent investigation into the Home Industries of Women in London,[1] after describing the "utter drudgery" of work valued at about 1½*d.* an hour, where "the only aim is to do as much as possible and just well enough to avoid having it returned," adds:

"Much of the work was being done for foreign shipping orders. This is the worst paid and most exacting of all, for the orders have to be finished in a day or two, while the boat is in dock, even if it be at the cost of a whole night of toil."

More often it is carried on entirely in large factories; but there it is mostly of a low grade, chiefly female, very poorly paid, and quite unorganised.

There is a striking chapter in Booth's "Life and Labour of the People,"[2] which sets forth the "economic advantages and disadvantages" of London "as a centre of trade and industry." Among its "advantages" in this sense the writer emphasises the supply of cheap labour:

"The hold of London is especially strong in certain industries that are largely dependent upon an abundant supply of low-paid subsidiary labour, some of the most conspicuous instances being drawn from those trades in which female labour is largely employed. . . . The prevailing circumstances of life and labour in London have ensured the supply of a

[1] 1897. Published by the Women's Industrial Council.
[2] Vol. ix., pt. ü., ch. iii., especially pp. 183, 187.

large quantity of such low-priced labour. It is always available; much of it is young and cheap; much of it is over-specialised and cheap; and unfortunately the conditions of employment of male labour not infrequently illustrate the same—from many points of view regrettable—strength of the economic position of London.

"Thus, since she is able to supply the large proportion of unskilled, semi-skilled, and over-specialised labour that they need, London may be regarded as being especially adapted to the following trades: The cheap furniture trade; the ready-made clothing and wholesale boot and shoe trades; rope and sack-making; rubber-work; fur-work; paper and card-board box-making; and envelope-making."

But what is true of London would appear to be true of England in its relation to the world's industry. England, with a lessening hold on the industries which require skill and cultivate independence, is turning apparently more and more to occupations in which it has a "differential advantage" over America and her colonies in the presence of a mass of cheap, low-grade, and docile labour.

3. Finally, it may be worth while to notice one other manufacture whose exports also are growing, viz., that of *spirits*. Before 1875 the annual value of exported spirits had been between £200,000 and £300,000 (except during the Crimean War and between 1861 and 1864). Since then it has grown with scarcely a break.

EXPORTS OF SPIRITS, IN THOUSANDS OF POUNDS.

1875	... ...	274	
1876	... ...	317	
1877	... ...	374	
1878	... ...	394	
1879	... ...	452	
1880	... ...	544	
1881	... ...	782	
1882	... ...	766	
1883	... ...	809	
1884	... ...	810	
1885	... ...	872	
1886	... ...	901	
1887	... ...	1,041	
1888	... ...	1,162	
1889	... ...	1,202	
1890	... ...	1,276	
1891	... ...	1,295	
1892	... ...	1,366	
1893	... ...	1,196	
1894	... ...	1,378	
1895	... ...	1,559	
1896	... ...	1,797	
1897	... ...	1,844	
1898	... ...	1,951	
1899	... ...	2,095	
1900	... ...	2,363	
1901	... ...	2,632	
1902	... ...	2,807	

We are now in a position to complete our forecast of the probable industrial future of Great Britain, so long as the present forces at work continue to operate unchecked. The great countries of the world will each seek to manufacture for themselves the chief staples of which they have need, and they will do this with increasing success even if they have to resort to high protection to effect their purpose. They will more and more advance from the preliminary to the later stages, from the rougher to the finer processes of the several industries—*e.g.*, in the case of cotton goods, from low numbers of yarn to high, and from yarn to piece goods. In the markets which remain "neutral" the British manufacturer will probably be more and more distanced by the greater economy of production possible to

America by its larger scale of operations, this larger scale being itself due to the larger secure home market. At home certain of our primary industries, especially those of iron and steel, will be battered with crushing blows by the American manufacturer in every recurring period of depression. The cheap material thus provided may give a temporary fillip to some other industries—thus cheap steel will for the time assist our shipbuilders. But while the gain will be of doubtful duration, the loss by the destruction of the material-supplying industry will be profound, and will be widely demoralising. Fortunately the growth of our population is somewhat slackening. But it will still increase, and we shall be more and more dependent on imported food. For this food we shall manage to pay, for a very considerable time, by turning more and more to those branches of production in which we shall continue to have an "advantage." We shall more and more rapidly exhaust our resources of coal, and we shall devote ourselves more and more to those industries which flourish on cheap labour. The habits of our population will also probably continue to give us advantages in the production of spirits on a large scale, and their sale to the rest of the world. More and more of our capital will probably be invested in the establishment of manufactures abroad. And while London and a few other great towns will become even larger agglomerations of labouring population, the rest of England

will remain an agreeable place of residence for *rentiers*, big and little, and will flourish on the "tourist industry." And—though with some new features—the history of Holland will have been repeated.

CHAPTER V.

A POLICY OF INDUSTRIAL DEFENCE.

We have seen what the economic forces are which will increasingly oblige the great manufacturing countries to seek an outlet from time to time for their surplus product in foreign markets; and this at prices below those at which they sell at home, and even below the cost of production, if we understand by cost of production the normal remuneration of all the agents of production, including capital. We have seen that this is no exceptional phenomenon, but the inevitable and periodically recurring consequence of modern methods of production under competitive conditions. We have seen also that this export policy is facilitated by the absence of customs barriers in the countries to which the goods are offered, and by their maintenance at home so as to protect the higher domestic prices.

This presents a problem for the importing country such as had not arisen when the fathers of Political Economy wrote, and which they therefore did not contemplate—a problem towards the wise handling of which their reasoning gives us little, if any, help. "Buy in the cheapest market and sell in the dearest" did not mean with Adam

Smith that it was always wise to buy in the momentarily cheap market regardless of all other circumstances. It meant, rather, to buy in those markets which would be continuously and permanently cheaper, if every country were left free to utilise its own peculiar "advantages."

What we have to face in England for some time to come are periods of temporarily cheap imports, followed by a return of the old prices each time the wave of prosperity returns in the exporting country. It would be to overlook the most obvious facts to assert that such importation is an unmixed evil. To the complaints of the home manufacturers who find their domestic market invaded it can always be retorted that the consumer benefits by the low prices; and these consumers are often other manufacturers to whom the imports are raw materials. It can easily be represented as a question of rival interests, each equally deserving or undeserving of the sympathy of the public.

But surely it is possible to rise from the welter of conflicting allegations and the immediate self-interest of the manufacturers concerned to general considerations of social welfare. And we may begin by asking ourselves whether a temporary fillip to one industry really makes up to society for a temporary depression of another—even if, measured in profits and amount of employment, it is of exactly the same magnitude. In my opinion, to state the question thus is to answer it. All

observers of working-class life will agree that a period of low wages and of partial or complete unemployment has a negative and degrading effect, far greater than the positive and elevating effect of a period of high wages and overtime. The vague consciousness of this contrast has evidently guided the policy of organised labour. It has always aimed primarily, not at taking advantage of every fluctuation of profit, but at safeguarding a standard wage; it has resisted its fall far more strenuously than it has fought for its rise. And the most thoroughly organised of all the trades—that of the miners—has never had any hesitation about recognising a maximum wage if only it could be guaranteed a minimum. Indeed, of late it has more than once seen with equanimity prices go up considerably above the point which, on a mere sliding-scale plan, would have justified a further advance of wages, in the well-justified belief that it was thereby strengthening its hold on the minimum. If, then, the offer is made to a country possessing two industries in a state of fair prosperity that one shall flourish exceedingly for a time in return for a depression of the other, it might well refuse to make the change. The temporary gain to the consumer from low prices might be more than counterbalanced by the net loss to the community as a whole.

The outlook becomes graver still when we look beyond the next two or three decades, with their trade cycles, and conjecture the more distant

future, thirty or forty years hence. There is but too much reason to believe that, if things go on as they have been, the recurring blows of American "dumping" will end by the complete destruction of certain of our staple industries, especially of the metallurgical. It may, indeed, be true that the iron ore deposits of the United States are not inexhaustible, and that the Steel Corporation is reckoning on their lasting only from seventy-five to a hundred years. But there is probably a great deal of ore in Canada, which—if things go on as they are—will undoubtedly come under American control. And even seventy-five years is more than long enough to enable America altogether to crush our iron industries. Let us assume, which is a large assumption, that the level of prices then reached will be permanent. Then England will have been definitely beaten by the superior advantages of another producing country, and "the consumer" will be the gainer.

But at what a cost! The death of a great staple industry, which has let down its roots so deeply, will try to the utmost our reliance on "the transferability of labour." If only from the motives of "humanity" which even Adam Smith recognised, we shall be almost compelled to ease the transition by temporary measures of defence.

There is still another consideration which, though not strictly "economic," Adam Smith, as we have seen, did not hesitate to adduce, and which, therefore, no later economist need be

afraid to refer to. "Defence is of more importance than opulence." Now, consider what is taking place just now. The "dumping" in the iron and steel trades is taking place at present chiefly in the primary forms of material, which is afterwards utilised in higher grades of manufacture; thus bars are imported which are then rolled in England into sheets. This is not only not denied, but it has even given occasion to a theory on the part of the defenders of our present *laissez-faire* system. "Old countries," it is said, "must look not so much to their primary industries for the expansion of their trade as to the more complicated and secondary processes of manufacture." But once let, for instance, our bar mills be abandoned and the labour employed therein dispersed, and we become dependent upon the exporting country, not only as to the price of bars, but practically for bars themselves: for the manufacture, once given up, can not easily be improvised. But it is quite unlikely that the importation will stop at the primary grades of the industry; it will go on, as it has already shown its tendency to do, to sheets, angles, and other structural forms. From primary *forms* the destruction will extend to the whole of a primary *industry*. Then our iron and steel plants will be abandoned, and for a time our engineering trades and shipbuilders will flourish. But they will be dependent upon the foreigner not only for the price, but for the steel itself. We shall be fortunate if these trades remain with us; but even if

they do the nation will have lost its political independence. A nation which cannot repair its ships and build new ones in time of war, is as helpless almost as a nation which cannot feed itself.

The only policy which has any hope of permanently counteracting these tendencies, and of preventing the decadence of this country, is one of widening the basis upon which its industry reposes. For the last fifty years we have been developing vast manufactures in the expectation that the market would equally expand, and for a long time this anticipation was fulfilled. But now the market is shrinking: the columns which support our overhanging staple industries are being removed or weakened one by one. We must either build fresh and more secure columns to rest on, or the industries must topple over. The metaphor is perhaps too catastrophic: things happen more slowly than that; but it may be doubted whether a sudden catastrophe would not be easier to bear than a prolonged and painful decay.

It is thus that, starting from the point of view of England's own economic needs, we arrive at the policy of Imperial consolidation and self-sufficiency. How it affects the colonies is an equally important question also to be considered. For the present, however, the problem of Imperial unity must be postponed. I lay emphasis on it here to make it quite clear that, in my opinion, it is to that our hopes must be primarily and mainly turned. It will be necessary to have recourse to defensive

tariffs to preserve our industries from destruction. But these must be regarded as temporary and provisional only—to tide over the dangerous transition from an island State to a real Empire.

In approaching the discussion of the necessary preservative tariff measures, we need to discriminate once more between the several types of "dumping." We may take first the German type, because it is in some respects the easiest to understand. It is well known that practically the whole of the coal and metallurgical industries of Germany are organised in syndicates and "cartels." These differ from the present form of most of the so-called "trusts" of America in that they have not yet advanced to a unified management of production: they are combinations for maintaining prices (and more or less for the joint marketing of the produce) by a number of concerns which retain their own independence as producers. And these "cartels" have notoriously sought to relieve the German market in times of depression by selling abroad below the domestic price. Their action has been avowed—though minimised—by the "cartels" themselves; it has been and is still the subject of Government inquiries, and the main facts are now easily accessible. Not to mention the large German literature on the subject, the chief facts may be found in M. Paul de Rousiers' book entitled "Les Syndicats Industriels" (1901), the more recent work of M. Arthur Raffalovich, "Trusts, Cartels et Syndi-

cats" (1903), and the briefer account in the last "Consular Report for the District of Frankfort-on-Main" (July, 1903).

The "cartels" have, however, advanced considerably beyond the point of lower foreign prices; they have devised a plan whereby export is assisted and encouraged by the grant of bonuses by the several syndicates to their members and customers. This plan appears to have been first introduced in 1891,[1] and it would seem to have been more systematically established in 1897. In the period of expanding trade which soon followed it was quite unnecessary; but in 1901 the reaction again came. The productive capacity of the German plants, enlarged as they had been by the exceedingly liberal assistance of the German banks, had been growing rapidly, and now the domestic consumption fell off alarmingly. Thus of pig iron the production and estimated home consumption have been as follows:—

	Production (in thousands of metric tons).	Consumption
1897	6,881	6,053
1898	7,312	6,210
1899	8,143	7,473
1900	8,520	7,955
1901	7,880	5,933
1902	8,402[2]	5,362

[1] Raffalovich, p. 23.

[2] These are the figures of M. Raffalovich. They differ, but only to a trifling extent, from those in the recently issued Board of Trade Tables on Iron and Steel (July, 1903), which for some reason do not come later than 1901.

Accordingly in February, 1902, it was determined at a meeting of the coal and iron industries of Westphalia, held at Cologne, to have recourse once more to *Ausfuhrvergütungen* (*primes à l'exportation ; bonifications*). The details of the plan are complicated, and have been modified from time to time ; but the general outlines are given in the following extract from the Report of our Consul-General at Frankfort :—

"The export bonus system was introduced in 1897 for such goods, the exportation of which could be proved beyond doubt by the production of bills of lading, invoices, &c. The bonus was granted by the coal, raw iron, and half-finished goods syndicates, with a partial co-operation on the part of the coke syndicate. The rate, which was fixed at 15 marks per ton net of the exported goods, was, however, only granted upon a portion of the quantities (viz., on $66\frac{2}{3}$, 50, or even $33\frac{1}{3}$ per cent.) of the raw material got from the syndicates. In principle, the bonus was only to be paid to unions which offered a guarantee that by these premiums the world's market price would not be allowed to fall below the limit established by foreign competition. The commercial high tide, however, diminished the importance of these bonifications because the prices on the world's market went up and rose in 1898—1899 partially above the inland selling price. With the turning tide new efforts were made to establish the export bonifications on a firmer and more lasting basis. . . . The following arrangement has been recently perfected :—

"The Rhenish-Westphalian Coal Syndicate, in connection with the Westphalian Syndicate, the Raw Iron Syndicate at Düsseldorf, the Half-Finished Goods Union and the German Girders' Union, on June 20 established at Düsseldorf a central office under the

style of "Clearing-house for Export." This office is empowered to settle the amounts of the export premiums for the above-mentioned syndicates and their members. All requests for grants of bonifications must be addressed to their office; here the declared exports are controlled as to their accuracy; here, furthermore, accounts and calculations are settled and the respective payments of bonus are effected. The amount of the bonifications is to be fixed quarterly. For the second quarter it was granted retrospectively to April 1 at the following rates: 1 mark 50 pf. per ton of such coal and coke as is used for the manufacture of export goods—coal is calculated to yield 70 per cent. of coke; furthermore, 2 marks 50 pf. for the ton of raw iron, exclusive of the bonus upon coal; furthermore, 10 marks per ton half-finished goods and 10 marks per ton girders, both inclusive of the bonus granted on coal and raw iron."

The plan has been also introduced into some of the minor metal industries. Thus, the rolled wire syndicate is stated to have granted a bonus on export to the extent of 15 marks on the ton to all its customers manufacturing wire tacks.[1]

England was, of course, not the only market affected by these measures for the encouragement of German export. But their effect on this country may be measured from the following figures of importation from foreign countries

[1] Leopold von Wiese on "Die rheinisch-westfälische Eisenindustrie," in Schmoller's "Jahrbuch," xxxi., p. 307. The author speaks of the bonus plan quite objectively as "an important instrument towards the securing of a system of regulated export."

(*i.e.*, excluding the quite trivial quantities from British possessions):—

	1901. tons.		1902. tons.
Iron bar, angle, bolt and rod	98,100	...	171,754
Steel, unwrought ...	182,649	...	280,945
	280,749	...	452,699

Our Board of Trade statistics do not enable us to discover the country of origin; but practically the whole of the increase came to us through Holland and Belgium, and was undoubtedly almost entirely of German production. Indeed, as the imports of steel from the United States actually fell off from some 50,000 to some 3,000 tons, the growth in the movement of German product to this country was considerably greater than the above figures would indicate.

The industrial consequences in Great Britain varied in the several districts, according as one or other branch of the trade predominated. From the Midlands it was reported:

"German and Belgian competition in iron and steel made its appearance very early in the year. The result has been that local prices have been kept very low, and profits have been small. Indeed, some manufacturers of common iron have accepted orders simply for the sake of keeping the works going. Foreign bars have been sold in the district at from 5*s.* to 7*s.* 6*d.* per ton below what Staffordshire makers could produce them for. In billets and blooms local steelmakers have held their own with more success,

but in girders, angles, and joists the Germans have secured a large proportion of the orders."[1]

Elsewhere it was felt to be "an advantage to those who had not their own steel works to be able to buy blooms and billets below the cost of production; but the effect on others was simply disastrous."[2] I shall not attempt to cite individual cases; and I do not suggest that any such widespread misery was produced as America will have it in its power to occasion. The general tendency of such experiences has, however, been already pointed out. The figures given above may be supplemented by the following statistics of hardware shipped to Great Britain from Germany, Holland, and Belgium (*i.e.*, chiefly of German manufacture):—

1901	...	...	171,849 tons.
1902	...	...	269,759 „

And the matter may be left with the following sentence from the *Economist's* review of 1902:—

"The continued industrial depression in Germany, while it diminished our exports thither, caused German goods to be thrown upon this market for whatever they would fetch, and so exposed our manufacturers to *an unhealthy competition*."[3]

The *Economist* is an extremely well edited journal, and it still abides by the doctrines of

[1] *Coal and Iron Trades Review*, Jan. 2, 1903.
[2] *Ibid.*
[3] *Economist*, Feb. 21, 1903, Supplement, p. 2.

State inaction which it advocated in the palmy days of Bagehot. But sometimes, when it is not writing leading articles on general policy but recording actual facts, it relaxes the severity of its utterance, and uses language hard to reconcile with a philosophy of unrestrained individual competition. For "unhealthiness" not infrequently leads to death.

The private bounties of the German syndicates have been frequently compared of late to the sugar bounties; and it has been suggested that similar measures might be employed on the part of other nations to secure their withdrawal. I cannot, however, think the parallel a close one; nor are like measures of suppression likely to be efficacious. Whether any particular Government should grant bounties to beet sugar or not was a matter for it to decide as it pleased, and the determining consideration of late has been the probable action of other Powers. But the syndicates' bounties are simply a means of carrying out more effectively the policy of cheap foreign exports. If that particular method were prohibited, it would probably not be difficult for the syndicates to devise other means of favouring exportation by its members or customers. And, so far as there were difficulties, they would but stimulate a transition from the German to the American and closer form of combination. The American trust has not employed, and probably will not employ, any bounty plan, simply because

it so completely controls production and sale that it does not need it. But this greater unity of action only makes it the more effective an agency for international competition.

We fall back, then, on the general question of "unfair" export prices. "Unfair" they will always appear to the manufacturer exposed to their competition; and the term, appealing as it does to ordinary notions of equity, may properly be used in popular discussion. But it should be plain that from an economic—or, put more simply, from a business—point of view there is no unfairness in the matter. Exceedingly low prices are made for a certain time and for certain markets simply because this is expected to inure to the best financial result over the whole range of transactions or over a period of years. And it is necessity that drives, in most cases—as we have seen above, in considering the effects of fixed capital—and not the free will of the exporter.

The modern capitalistic combinations certainly render this export policy, inevitable in any case, a good deal easier. And with relation to combinations there are three widely current opinions.

The first is that of the optimistic individualist—that they will break down of their own weight and that the world will go back to the competition of a number of rival concerns. It is true that the combinations have not yet perfected their organisation; it is true that some of them are over-capitalised and have yet to go through serious

trials. But I do not see how anyone who has given any serious attention, not so much to the situation of the moment as to the movement of events for the last thirty years, can cherish such an opinion. Their history shows a steady progress in solidity; the reconstruction necessary in some cases, by relieving them of the pressure to earn dividends on "water," will make them only the more dangerous. We must reckon with them as permanent elements of the situation. I may add that in my opinion it would be undesirable that trusts should break up, even if it were likely; since, in spite of some appearances, they afford the best hope in their several countries for an improvement in the condition of labour.

Another opinion often expressed is that the injustice to consumers involved in higher domestic prices will ultimately lead to the withdrawal of protection, and that we have only to wait until the trusts bring this punishment upon their heads. This is the hope of American and German free traders alike. In Germany the manufacturers of "finished goods," who use German "half-finished goods" as materials, have been loud in their complaints against a system which puts them at a disadvantage in comparison with their foreign competitors. Thus:

"Iron bars, while they cost home customers 95 marks delivered at the Rhenish Westphalian works, were exported during the month of September for 80 marks, or even 72 marks, f.o.b. It is said that the

British and Belgian rolling mills calculated their prices for rolled wire upon the basis of these cheap purchases in Germany, so that the price fell very considerably on the world's market, and the German wire industries, which export nearly 60 per cent. of their produce, were forced to make allowance for this considerably reduced price."[1]

And examples could be easily multiplied.

But the abolition of the protective tariff on the too-cheaply exported goods is an improbable result. The combinations which are complained of can reply with much reason that their export policy is for the good of the country as a whole. The subject was thoroughly discussed in the German Reichstag in November last; and Dr. Möller, the Prussian Minister of Commerce, summed up the opinion prevalent in official circles:

"He could not but rejoice to see that the exportation of great quantities of iron, &c., to the United States and to England had alleviated the crisis in Germany. True, this would not suffice to put the whole of German production into a healthy condition: but if this outlet had not been found, the burden of over-production would have weighed upon the country for years."

The motion that the import duties should be lowered on goods produced by syndicates and sold more cheaply to foreigners was thereupon defeated by 166 votes to 68.[2]

There is finally the hope which some foreign

[1] "Consular Report for the District of Frankfort" (July, 1903), p. 27.

[2] Raffalovich, "Trusts, &c.," pp. 60, 64.

observers entertain that the practices of the syndicates may be regulated by international agreement. This takes its point of departure from a note of the Russian Minister of Finance, M. de Witte, which was communicated by the Russian Government to the Powers signatory to the Brussels Sugar Convention, apparently early last year. Where the text of this remarkable document is to be found I do not know; for the present one must gather its contents from the references to it in the German newspapers and Parliamentary debates.[1] M. de Witte seems to have pointed to the policy of the syndicates as constituting an international evil, and to have expressed the readiness of Russia to join in an international agreement. He urged also, apparently, that no country could be asked to agree to a commercial treaty for a term of years (the German policy) when the conditions of the bargain were in danger of being transformed by the action of syndicates. It is not clear how much importance is to be attached to the note; it may have been intended only to cover Russia's refusal to agree to the Sugar Convention by alleging worse evils than sugar bounties in the practice of the signatories.

[1] The fullest account I have seen is in the *Kölnische Volkszeitung* for July 20, 1902, which translates an article upon the note in M. de Witte's journal, the *Westnik Finanssov*. See also the summary of the Reichstag debate in Raffalovich, "Trusts," pp. 56 *seq.*

And, in any case, it is in my judgment impossible to be sanguine about such a proposal. The more or less temporary low-export-price policy is not a passing vagary or wilful fit on the part of certain industrialists; it is the natural and inevitable outcome of the whole evolution of manufacture up to this point. At home it steadies the market and maintains a greater regularity of employment; abroad it is a weapon in the commercial warfare of nations of which no nation can be expected to divest itself. Germany is the country using it most energetically just now; but German possibilities in that direction are puny compared with those of America. And when we observe the pride with which the ordinary American citizen contemplates his future "capture of the markets of the world," it is evidently not to be expected that the United States should agree to any such self-denying ordinance. No; there is apparently no way of meeting the danger which such imports threaten to national prosperity and political security, but the employment of the only economic weapon of defence which the State possesses—viz., import duties.

In devising a tariff for Great Britain, the other purpose will have to be constantly borne in mind besides industrial self-preservation—viz., Imperial reciprocity. This latter is so far the more important that anything else must be regarded as temporary and subsidiary—serving a provisional end by very rough-and-ready means until it can be far

better served by the expansion of trade within the Empire. But this aspect of tariff policy must be postponed to the next chapter.

Another purpose will very possibly present itself—that of international negotiation. It may be expedient to levy duties on certain articles simply in order to have something to bargain with. It is generally recognised that England has been at a disadvantage because it has had nothing to offer in exchange; and it is notorious that even Free Trade Ministries have tried to use the wine duties for this purpose, though they were avowedly maintained for revenue only. But it is hardly likely that any considerable use of tariffs can be made for this purpose, because the countries which are excluding our goods by high customs are doing so in order to develop the industries themselves; and for several of the great staples we must look forward to most of the chief manufacturing countries becoming self-contained and self-sufficient at no distant date.

There remains, then, for present consideration the question of defensive tariffs; and one must begin by pointing out that this purpose will not be served by a general all-round low or even moderate customs duty. No low or even moderate duty will suffice to keep out foreign goods when they are being sold at any price to "relieve" the domestic market. It is naturally difficult to get quite reliable information as to the reduction of prices; but it is said on fairly good authority

that German rails were sold at home at 115 marks the ton, abroad at 85 marks; wire tacks at home at 250 marks the ton, abroad at 140 marks; and that in the last period of depression in the United States, American rails were sold abroad at a reduction of 32 per cent., tin plates at a reduction of 31 per cent., and various gauges of galvanised wire at as much as from 63 to 84 per cent. reduction.[1]

To meet such prices, duties of 50 or 75 per cent. *ad valorem* may be needed—or even prohibition. But it will not, for some time to come at any rate, be necessary to keep up these duties permanently. And if permanence can be avoided, it will be very desirable; for it will be well to retain the stimulus and check to our own manufacturers which foreign competition supplies, so long as we possibly can. What seems dictated by the requirements of the case is the statutory authorisation of the Executive to impose the duties that may be required from time to time as the circumstances arise. It will not be safe to wait until the need arises before appealing to Parliament, for the mischief is of a kind that can be accomplished in a very brief period.

Against an all-round tariff, however low, there is this also to be said. Not all the trades now carried on in Great Britain are trades worth preserving. We have already seen the tendency to

[1] *Westnik Finanssov*, quoted by *Kölnische Volkszeitung*, and Raffalovich, "Trusts," p. 155.

expansion of some of our cheap-labour industries. But there are, it would seem, certain low-grade trades which are decaying, either because labour is even cheaper elsewhere or because elsewhere it is replaced by machinery. It would be unfortunate if such trades were assisted to prolong their struggle for existence.

The suggestion to grant power to the Executive to defend effectively such industries as ought to be kept alive for the sake of national well-being will possibly at first sight strike the reader as a wild and revolutionary proposal. But the fact is that we have never before, no nation has ever before, been in such a position. The old absolute Free Trade was a simple enough policy; the old Protection was almost as simple. A policy more elastic, more easily handled, is what is required; and there are signs in recent German and American legislation that other nations are beginning to find this out, and to invest their Governments with discretionary powers, even if we are not.

But it must be granted that for the efficient exercise of such a discretionary power more information ought to be at the disposal of our Government than it yet possesses. The Board of Trade is a bureau for the workmanlike classification of certain, mainly commercial, statistics; but it is nothing more. The idea that the industrial organism can be studied as a living body is one which has not reached it, or if it has reached it, has left it unmoved. What should be found in the

office of a Ministry of Trade and Commerce such as Great Britain ought to possess, is a complete series of surveys, renewed from time to time and kept up to date, of every considerable branch of British trade and commerce—its condition industrially, technically, commercially—and a parallel series of reviews of the industries of the other chief countries of the world. All this should not be printed—probably we should be none the worse off if the Government departments produced fewer volumes of figures—but it should be accessible to the heads of the department and to the Ministry. This does not involve a whole paraphernalia of irritating and official forms of inquiry into trade secrets; it involves simply a larger staff, real interest in economic problems on their part, readiness to use, as starting points, the obvious sources of information, such as the great trade journals, and ability and willingness to keep abreast of all the really good work in the way of economic observation being done by economists all over the world.

The work of the central office should be supplemented by—or, rather, should consist very largely in—the collation and arrangement of material furnished them by local and foreign correspondents. As to local correspondents, a good example has already been set by the Labour Department. But what is needed are local correspondents who will take a general view of *all* the main conditions affecting each of the staple

industries in their neighbourhood. I would suggest that the obvious local correspondents for the Ministry of Commerce—the only men who are likely to have both the necessary independence and the necessary width of view—are the Professors, or some other members of the staff, of the new Faculties of Commerce in the provincial and in the Scotch and Irish universities. There will soon be Faculties of Commerce (under that or some equivalent name) in London, Birmingham, Manchester, Liverpool, Leeds, and Sheffield, and there are already departments of economics at Edinburgh, Glasgow, Dublin, Belfast and elsewhere. Whatever views the professors of such faculties of commerce may hold as to the value of abstract theory, they are all turning their attention more and more to the observation of actual conditions; and the new needs of higher commercial education will perforce lead them further in this direction. I am quite aware that in making this proposal I am exposing myself to ready witticisms. But the German Government has for the last few years adopted a somewhat similar policy, by attaching competent and well-trained young professors of economics to various Government departments as "scientific assistants"; and the plan I have outlined would be freer from objection in England, since the English Government has little or no academic patronage in the newer universities. In America one of the most remarkable features of recent academic life has been the

extent to which the professors of economics have been employed in the public service. It may be sufficient to mention the work of Professors Jenks, Ripley, and Durand in connection with the Industrial Commission.

The foreign correspondents ought, of course, to be the consuls. The English consuls are certainly not so much to blame as some business men suppose, just as English business men are not so stupid as some consuls suppose. The function of the consul should not be that of a commercial traveller. Nor, on the other hand, should he be an economic spy. But he certainly ought to be able to furnish his Government with clear and well-written accounts of the general position of trade and industry in his district. It is notorious that few consular reports are of this kind. Most are masses of figures, good, bad, and indifferent, the rawest of raw materials for a judgment upon the situation, and very inadequate materials too. The consuls ought, it is hardly necessary to say, to be in direct touch with the Ministry of Commerce: the mediæval arrangement which attaches them to the Foreign Office should be reduced to a name, if it cannot be abolished. And they ought to be trained men; not necessarily men of much minute practical acquaintance with the details of processes—all that they need to know of these they can readily pick up as they want it—but men who start with a knowledge of the broad outlines of the industrial history of the modern

world, men who know what sort of things to look out for in the development of an industry, and men who know how to present lucidly what they have to say. The demand for a trained consular service could be met in the past by asking how the training was to be obtained. Certainly a training in abstract economics would not have been sufficient. But this again, I make bold to say, is a proper function for the new Faculties of Commerce; and the German Government has already recognised this by the arrangement it has made for the purpose with the *Handels-Hochschule* of Frankfort.

CHAPTER VI.

A POLICY OF IMPERIAL INDEPENDENCE AND INTER-DEPENDENCE.

THE essential and ultimate problem for Great Britain is whether, in a more closely united Empire, she can find that basis for her economic well-being which is gradually being withdrawn from beneath her feet in the foreign market.

The broad general facts with regard to Great Britain's present trade with foreign countries and British possessions are beyond dispute. I quote the following summary statement from what is perhaps the most widely circulated of all the recent writings on the side of inaction :—

"We do a great deal more business with foreign countries than with British Possessions. It could scarcely be otherwise, for the great area of the British Empire outside the United Kingdom contains, as we have already shown, only 11,000,000 of white people. Our oversea trade amounts to £800,000,000 per annum, £600,000,000 of which is transacted with foreign countries and £200,000,000 with British Possessions."[1]

[1] Chiozza, "British Trade and the Zollverein Issue," p. 45.

And these are thus divided:

BRITISH OVERSEA TRADE IN 1901.

	Millions of £
Imports.	
From Foreign Countries	416·9
„ British Possessions	105·4
	522·3
Exports.	
To Foreign Countries	175·8
„ British Possessions	104·6
	280·4

But such figures really teach us nothing. If we are asked whether it is wise to "endanger" the 600 millions for the sake of the 200, it must be asked in return what is the relative significance to us of the 600 and 200, what would be likely to happen with these figures if we did nothing, and whether measures proposed to increase the 200 need necessarily diminish the 600 to the same extent? Moreover, it must be pointed out that the export figures suggest a different, and, on the face of it, a surprisingly encouraging, comparison; and if imports are of most significance for the past history of the country, exports are certainly more significant for its future. And as to the 11,000,000—a figure rather out of place unless the "whites" are distinguished from non-whites in all the statistics of export and import—the argument cuts both

ways. As we shall see, the surprising thing is that so few should have bought from us so much.

The figures require to be analysed before they acquire any significance. And when analysed they yield the following results:—

1. During the last forty years the export of British products, to foreign countries on the one side and to British colonies and possessions on the other, has grown in much the same proportion.

The calculations are given by Professor Wagner. From 1861 the increase until the last minimum (depth of depression) year (1898) was 98 per cent. to British colonies and possessions, 81 per cent. to foreign lands; until the last maximum (prosperity) year (1900) 124 per cent. to the colonies, &c., 138 per cent. to foreign lands.[1]

2. But the fluctuations in our trade with the colonies and possessions have been somewhat less than in our trade with foreign countries, "which suggests," as Professor Wagner remarks, "that the foreign market offers a somewhat less secure basis for British trade."

With this compare the remark of Professor Rathgen, who occupies a rather different position in the protectionist controversy in Germany: "The share of the colonies was somewhat greater in unfavourable years, somewhat less in favourable years. In other words,

[1] "Agrar- und Industriestaat," p. 168.

the trade with the colonies did not fluctuate quite so much as that with foreign lands."[1] As Professor Rathgen remarks, the comparison is a very rough-and-ready one. Thus the exports to Hong-Kong and to the Straits Settlements (which vary between 5 and 6 millions and are hardly increasing) are really destined chiefly for foreign countries; while Egypt (whither our exports are also about 6 millions, but steadily growing of late) ought perhaps to be entered under the head of British Possessions. As to the range of fluctuations, I borrow the following table from Professor Wagner for the year of minimum and maximum exports:—

	To British Colonies and Possessions. + − in %	To Foreign Countries. + − in %
1862 Min.		
1866 Max.	+ 28·1	+ 64·7
1868 Min.	− 6·3	− 4·0
1872 Max.	—	+ 50·8
1874 „	+ 45·0	
1878 Min.	+ 0·7	
1879 „	—	− 35·3
1882 Max.	+ 39·0	+ 23·7
1886 Min.	− 11·2	− 12·4
1890 Max.	+ 15·5	+ 28·5
1894 Min.	—	− 18·7
1895 „	− 19·7	
1896 Max.	+ 19·8	+ 8·9
1898 Min.	− 4·2	− 3·3
1900 Max.	+ 17·0	+ 31·3
Sum of the fluctuations	206·5	281·6
Average „ „	18·8	26·5

[1] "Schriften des Vereins für Social politik," lxxxxi. 133.

3. Moreover, while the value of our exports of domestic produce to the chief manufacturing foreign counties—Germany, Belgium, the Netherlands, France and the United States—has greatly diminished within the last thirty years, that to the English colonies of "European civilisation"—Canada, Australia, South Africa, together with the trifling trade with the Channel Islands, Gibraltar and Malta—has largely increased; so that at present the latter is two-thirds as large as the former.

The following figures are also from Professor Wagner,[1] except those for 1901, which are from the "Statistical Abstract":—

	To European Competitors.	To English-speaking Colonies.
1861 —	41·9	18·6
1862 Min.	44·2	19·6
1866 Max.	67·9	24·1
1868 Min.	68·4	20·3
1872 Max.	112·3	30·7
1879 Min.	68·4	29·6
1882 Max.	84·4	44·9
1886 Min.	71·5	35·6
1890 Max.	85·8	41·8
1894 Min.	66·5	32·9
1896 Max.	73·0	43·6
1898 Min.	68·3	42·1
1899 —	78·7	43·8
1900 Max.	89·5	50·9
1901 —	75·5	54·9

[1] Here put together from the two tables on pp. 167, 176.

The colonial figures for 1901 were, it need hardly be said, somewhat swollen by the South African War.

4. The self-governing colonies purchase several times as much from Great Britain in proportion to their population as our chief European competitors.

FOREIGN COUNTRIES.

	Imports (1902) from U. K. per head. £ s. d.
Germany	0 11 8
Holland	
Belgium	
France	0 8 0
United States of America ...	0 6 3

BRITISH COLONIES.

	Imports (1902) from U. K. per head. £ s. d.
Natal	8 6 0
Cape Colony	6 19 6
Australia	5 5 6
New Zealand	7 5 7
Canada	1 18 4

The observations under the last three heads may perhaps incline those who have begun by minimising the colonial trade to go to the other

[1] Working at the seaside, it is impossible to have all one's tools with one, and I confess that I have taken these figures from a controversial source—the Birmingham Tariff Committee's "Handbook for Speakers," but I see no reason to doubt their accuracy.

extreme, and to argue that everything is going well and that nothing need be done to encourage the colonial trade further. The proper answer, I think, is that, although sentiment, the early habits of new settlers, and the political connection have hitherto led our colonial fellow-subjects to consume so large a quantity of English goods, they have reached a position in which they will inevitably begin either to manufacture more for themselves or to obtain what they want from other countries which will grant them preferential terms —unless they can secure with *us* a larger outlet for their agricultural products. The value of such comparisons as have been given above lies in this: they give us reason to believe that in seeking to develop still further our inter-Imperial trade we can now start—if we wait no longer—with prejudices and habits on the part of the colonials which are, on the whole, very distinctly in our favour.

A preferential policy had floated for some time vaguely before the minds of many of the statesmen and writers of Great and Greater Britain. The first definite and practical advance, however, in that direction was taken by a colony, and that the oldest and greatest of all, namely Canada, by the Reciprocal Tariff which it introduced for its own trade in 1897. This tariff proposed to grant certain advantages to any country which agreed to treat Canada on equally favourable terms; and, although it was probably not expected that any

other nations would grant such privileges, the arrangement was in form one of general reciprocity. Practically it was a preferential treatment of the Mother Country; and the warm welcome it received on that account in England, and the experience soon obtained of the attitude of other nations, led the Canadian Government in 1898 to make it avowedly a British preferential tariff. This was announced as a free concession on the part of the Dominion, without any "consideration" whatever; it could be even represented as a step on the part of Canada towards free trade, and Sir Wilfrid Laurier, the Canadian Premier, on his visit to England at the Jubilee, was the recipient of a Cobden Club medal. But opinion moved quickly; and at the Conference of the Prime Ministers of the Self-Governing Colonies, on the occasion of the Coronation in the summer of 1902, the following resolutions were unanimously agreed to, Sir Wilfrid Laurier assenting:—

"(1) That this Conference recognises that the principle of preferential trade between the United Kingdom and His Majesty's Dominions beyond the seas would stimulate and facilitate mutual commercial intercourse, and would, by promoting the development of the resources and industries of the several parts, strengthen the Empire.

"(2) That this Conference recognises that, in the present circumstances of the colonies, it is not practicable to adopt a general system of free trade as between the Mother Country and the British Dominions beyond the seas.

"(3) That with a view, however, to promoting the increase of trade within the Empire, it is desirable

that those colonies which have not already adopted such a policy should, as far as their circumstances permit, give substantial preferential treatment to the products and manufactures of the United Kingdom.

"(4) That the Prime Ministers of the colonies respectfully urge on His Majesty's Government the expediency of granting in the United Kingdom preferential treatment to the products and manufactures of the colonies, either by exemption from or reduction of duties now or hereafter imposed.

"(5) That the Prime Ministers present at this Conference undertake to submit to their respective Governments at the earliest opportunity the principle of the resolution, and to request them to take such measures as may be necessary to give effect to it."

Thus, from a free preference to the Mother Country in recognition of the ties of blood and of her policy of allowing imports to enter uncharged with duty, Canada and the other colonies with her had passed on to the further proposal, that the preference should be reciprocal. This was due partly to the pressure of public opinion in certain of the colonies themselves, and especially in Canada, where the notion of reciprocity had long been current, and the Conservative party had for years harped on the idea of reciprocity with England. Quite as much was it due to the remarkable fact that the English Government had meanwhile reintroduced a duty on imported corn. The duty was merely the registration charge of a shilling a quarter; and the Chancellor of the Exchequer was no doubt absolutely sincere in his belief that its restoration was justified by fiscal necessity and involved no concession to protectionist heresy.

The spectacle of a statesman so well versed in the abstract arguments of the older economists as Sir Michael Hicks-Beach, and so able to exculpate himself by appeal to the authority of Mr. Gladstone, and yet apparently without any inkling of the effect of his measure on colonial sentiment, is a curious and instructive one. To receive with loud gratitude a Canadian preference, and then, soon after, in the midst of a war in which colonial patriotism for the first time showed what it could do for the help of the Mother Country, to impose a duty, however light, without a word of special regard for the colonies—it was an impossible position. Not the interest so much as the sentiment of the colonies was wounded. And the Canadian Ministers in London (all the leading men in the Cabinet) made this quite clear in the Memorandum which they handed in on August 11, 1902:

"From the beginning of the proceedings the Canadian Ministers have claimed that in consideration of the substantial preference given by Canada for some years to the products of the Mother Country, Canadian food products should be exempted in the United Kingdom from the duties recently imposed."[1]

The duty on corn in England has since been removed, but the effect of its imposition cannot be removed so easily. It is notorious that the pressure upon the United Kingdom,

[1] "Colonial Conference, 1902" (Cd. 1299), p. 37.

which thus originated with the colonies, has since become more intense, especially from Canada and New Zealand. Sir Wilfrid Laurier has very recently disclaimed any intention of "forcing" Canadian views "upon our brothers"; but he has said, with remarkable emphasis for one who can still speak of "the heresy of Protection," that "we are intensely desirous of having a Preferential market for our food products in Great Britain."[1]

Not much time need be given to the argument that the policy for the Empire to aim at is one of internal free trade. The preliminary question, whether this implies English and colonial tariffs against the rest of the world, may be left undiscussed; free trade within the Empire alone would not conciliate the doctrinaire free trader. Nor need the existence of protected industries in the colonies be regarded as the initial obstacle to internal free trade so far as the colonies are concerned. The elementary and essential fact is that the colonies have grown up with a system of indirect taxation, and that the people are so unaccustomed to direct taxation that to attempt to rely upon it alone would upset the whole machinery of government. Yet a tariff "for revenue only," in Canada and Australia, cannot fail to have a considerable protective effect. We

[1] Speech at the Montreal Congress of Chambers of Commerce. I quote from the report in the "Free Trader" for Aug. 28, 1903.

must therefore start with the assumption that for a very long time to come import duties will be maintained in the self-governing colonies; and that, with the greatest goodwill in the world, they will perforce be levied to some extent on English goods.

And now as to the carrying-out of the preferential policy on the part of the United Kingdom. We need not hesitate to confess that, at the present moment, it is impossible to indicate all the future outlines of a completely satisfactory arrangement. What is now needed is to set our faces in the new direction, and, in our practical measures, to proceed step by step on the lines of least resistance. Everything must be regarded as experimental. Such experiments we are, indeed, bound to try, unless we are ready to submit to industrial decadence, and—as I shall argue later—to Imperial disintegration. But it will make a good deal of difference whether we try the experiments grudgingly or with a hopeful confidence in the kindly feeling, the give-and-take temper of the British peoples.

One objection must be pushed on one side at the outset. A preferential policy may be expected to be beneficial to the colonies, and yet it may be impossible to construct a plan which shall secure precisely equal material advantages to every one of the colonies. The demand is, indeed, an almost academic one. What the colonies crave is some practical proof that Great Britain does

really care for them more than for the foreigner. To every one of them it is possible to afford this practical proof in one way or another. But if this can be made clear, and if the colonials can be made to feel that English statesmen are not contemptuous and "superior," but are honestly trying to do their best, they will be ready enough to listen to reasonable argument. Their statesmen have no inconsiderable knowledge of English conditions—a knowledge which will increase as the imperial tie grows closer—and the peoples of our daughter States have far more generosity and magnanimity of sentiment than they are sometimes given credit for.

The question whether any preferential arrangement can furnish Great Britain with a completely secure basis for all its staple manufactures is a much more pertinent one. Here, again, it must be replied that we cannot know unless we try; that no other means of reaching that end is open to us; and that we can already see various particular directions in which preference will, in fact, preserve our market. This has already been indicated by the Canadian preference. It may not have done as much for British trade as was anticipated, and some British industries may have been quite unaffected by it. It is true also that the trade of the United States with Canada has grown as largely as the trade of Great Britain. And yet the contention of the Canadian Ministers is confirmed by independent examination of the

statistics[1]—the contention, namely, that "the Preference has *arrested the decline* in the volume of British imports into Canada." When we reflect on—(1) the advantages which the United States possess in the Canadian market from mere geographical position and the effect of this on freight charges in the case of heavy goods, like iron and coal; (2) the extent to which Canada consumes products, like tobacco and Indian corn, which are not grown in the United Kingdom; and (3) the similarity of agricultural conditions, which makes it natural to import American agricultural implements, and of social and climatic conditions generally, which also stimulates American import, our wonder must be, not that the United States competes with us there, but that we remain in the field. So that when we learn that between 1890 and 1897 the total British imports decreased by 32 per cent., while the total non-British imports (chiefly American) increased by 18 per cent., and that between 1897 and 1901 British imports increased 46 per cent., we may regard the fact as very encouraging, in spite of the even greater increase in American imports (79 per cent.). After what we have seen in a previous chapter of the position of the British textile trades, it is important to observe that " the imports from Great Britain

[1] As by Professor Davidson, of the University of New Brunswick. I have not access at the moment to the reference, but I believe his article was in a recent volume of the *Economic Journal*. [In Vol. X., giving figures to 1899.]

of textiles decreased by 36 per cent. 1893—1897, while they increased from other countries 20 per cent."; and that "from 1897 to 1901 they increased by 57 per cent. from Great Britain, and by 55 per cent. from other countries."[1] However, 1900—1901 were somewhat abnormal years; and it also took some time for British merchants to realise the opportunity which the Preference gave them. In 1902 the increase in British imports was almost the same absolutely as in American, and, of course, a good deal greater relatively, the figures being, in millions of dollars:

	U. K.	U. S.
1901	42·8	107·1
1902	49·0	114·7

These are the figures deducting bullion and specie.[2] Even including bullion and specie,[3] the percentage of total imports received from Great Britain rose from 23·74 in 1901, the lowest point hitherto reached, to 24·27 in 1902, while that from the United States fell from 60·96 to 59·58.[4] The change is indeed slight; but it is no longer true to say, as was urged in the Board of Trade Memorandum last year, that "the continuous decrease which has been taking place of recent

[1] "Colonial Conference," 1902, pp. 119, 120, 123.

[2] "Statistical Year Book of Canada" (1902); *cf.* p. 184 with p. 234.

[3] Which came from the United States in 1902 to the extent of 6,000,000 dollars, while from England the value of less than 200,000 was received.

[4] "Stat. Y. B.," p. 184.

years in the proportion of imports from the United Kingdom into Canada has not been arrested by the operation of the tariff."[1]

But this is a digression. The direction in which we have first to look for an extension of our trade with the colonies is clearly not in that of goods already manufactured there of the same character, but in that of goods received by them from foreign countries which we are not precluded from supplying them with by climatic or geographical reasons. This was the course indicated by the Canadian Ministers in their memorandum of last year:

"If they could be assured that the Imperial Government would accept the principle of preferential trade generally, and particularly grant to the food products of Canada in the United Kingdom exemption from duties now levied, or hereafter imposed, they would be prepared to go further . . . and endeavour to give to the British manufacturer some increased advantage over his foreign competitors."[2]

How much scope for expansion will thus be found will naturally be a subject for controversy; and a careful discrimination between the several classes of goods received by the colonies, with some explanation of the causes why they are not supplied by Great Britain, is one of the pieces of investigation for which we ought to be able to turn to our statistical departments. Thus the most important article of German export to

[1] "Colonial Conference," p. 84.
[2] *Ibid.*, 37.

Canada is raw sugar, and any increase of duty thereon would accrue to the benefit of the British West Indies (a most desirable result), and not to the Mother Country. Still, there must be some room for a larger English trade. In, *e.g.*, the almost £6,000,000 worth of goods received by Australia from the United States, or the £2,750,000 worth received from Germany; in the £1,500,000 worth received by New Zealand from the United States, the £2,000,000 and £2,500,000 worth from the same source by the Cape and the West Indies respectively; as well as in the £9,000,000 worth received by India from European countries other than Great Britain; it is hard to believe that no fresh opening worth having is to be found for British goods.

But it must be repeated that it is not as if the whole of our foreign export trade were about to be destroyed, and we had to embark on the hopeless task of immediately finding equivalent markets. What is happening is that our foreign export trade is being *gradually* restricted, or taking forms—such as the sale of coal and of cheap-labour goods—which are unsatisfactory. The task is to find *gradually expanding* markets for such trades as are worth preserving, and even with the present situation in the colonies it is possible to make a start. But we must also look forward to a time fifty years hence, when the population of our white colonies (to put on one side, for the time, the population of the dependencies) will be

twice as great as it is now.[1] And unless we can begin to set the stream going now in the right direction, the outlet may be entirely blocked when we are in more urgent need of it.

For, if things go on as they are, and the colonies drift further and further away economically from Great Britain, they will indubitably follow the example of the countries of Europe, and will seek to manufacture for themselves all that they require. That they have already gone a considerable way in the manufacturing direction is, however, no conclusive reason for believing that they are bound in any case soon to dispense with British goods; for it has not yet been made their obvious interest to work out a system of inter-Imperial division of labour.

In the preceding chapters the case has been argued from the British insular point of view, simply because this argument is addressed to a British insular audience. The first overtures have been made by the self-governing colonies; it is not Great Britain that is pressing the policy upon them; and the next step is for Great Britain to

[1] At the last decennial rate of increase (11·14 per cent.) the population of Canada will not quite double in fifty years; that of Australia (15·7 per cent.) will more than double; that of New Zealand (23·4 per cent.) will almost treble. The rate of increase of New Zealand and Australia will probably slacken; that of Canada (with the coming influx from the United States) increase. Besides the possibilities of the Cape and Natal, and of the newly-annexed States, Mashonaland's future may considerably increase the white population of South Africa.

decide how the overtures shall be received. But it is equally necessary that the colonial position should be properly understood in England. There are already important manufactures in existence in the colonies, especially in Canada and Australia; and whether it is wise or no for Canada and Australia to protect them, it must be distinctly understood that no colonial Ministry would think for a moment of granting such terms to Great Britain as would seriously endanger them.

Accordingly, if there are any Englishmen so foolish as to suppose that an arrangement can be made whereby *all* English manufactures will be able to find a market in the colonies, the sooner they are disabused of the notion the better. For the sake of administrative convenience, each great colony may perhaps introduce some all-round deduction of duty—say, 25, 33⅓, or 50 per cent.—in favour of English goods; but it will quite certainly—if necessary to protect large colonial industries—previously raise the general rate on particular goods to an equivalent extent, so that on those goods the reduction will be meaningless. The question is whether the colonies—besides the preference of British to foreign goods—will consent, in return for adequate reciprocal concessions from Great Britain, to abstain for a time from entering upon such branches of manufacture as they have not yet undertaken. In other words, will they consent to a certain slackening in their manufacturing development?

Where the colonies possess great natural advantages for particular industries it can only be a question of time when they shall establish them. Thus Canada, with its iron-ore and coal deposits in Nova Scotia, will undoubtedly sooner or later become the home of great metallurgical industries; and it may be, if the deposits turn out to be as large as they now seem, that the most desirable consummation will ultimately be the transference of a part of our iron-working population from this country to the Dominion. But it is equally true that there are industries for which particular colonies will have no peculiar facilities —*e.g.*, probably, Australia for cotton manufactures —and, in that case, the desirability of abstaining from their establishment may well be determined by a balance of considerations.

What, then, are the general considerations which might properly justify a colonial statesman in consenting to a certain slackening in the progress of industrialisation? Simply this, that Great Britain and the other European countries which have rushed into the path of manufacturing activity have not been so brilliantly successful in the social results of their policy as to encourage unlimited imitation. No manufacturing nation —least of all the United States—sees its way yet through "the labour question," and the labour question is only a part of "the condition of the people" question. It is not physical misery that is the main evil: it is the constant accumulation

of ever-greater masses of urban population, with their stunted physique and their limited outlook. A policy of protected manufacturing development carried to the same extreme as by the United States will mean for Canada and Australia and South Africa a further rapid development of their large towns, and the slow increase of their rural population. It is not as if the growth of manufactures were needed in these new countries, as they were in Europe, to break the crust of feudalism. They start with peoples already more thoroughly democratised in sentiment than any of those of the Old World. And it is not as if the proposal were that they should go back to a purely agricultural stage. They have already reached a stage in which they sufficiently enjoy the advantages of diversity of employment. It is surely no mere English notion, put forward to induce the colonies to assent to a policy for England's advantage, that the main interest of the new countries now lies in the distribution of the population over the land and the maintenance of its physique by rural life, while its intelligence is heightened by education and improved means of communication. It is this that is clearly indicated by the long history of Australian land legislation, with its intention to favour the "selector," as well as by the immigration and transportation policy of Canada. Such a wholesome trend to colonial development can evidently be encouraged by such a British preference as will give a better market to colonial

agricultural produce. And while in this way the colonies give the Mother Country time to readjust its industrial activities to the new conditions of competition, the Mother Country will help the colonies to avoid the evils of over-hasty industrialism, until we all—in Great Britain and the colonies alike—see more clearly how to deal with the human problem which extreme industrialism always involves.

Returning now to the present position of the United Kingdom. To the proposal to slowly feel our way, if it may be, to a system of mutual inter-Imperial preference by means of tariffs, only three alternatives, so far as I know, have been suggested by those who have seriously thought about the matter. Those who still believe that the history of British trade during the last two decades gives no occasion for uneasiness will content themselves with a purely critical and negative policy. But that is hardly the attitude of serious observers.

(1) The first alternative is what may be called the technical education policy—using "technical" in a large sense, to include what in Germany and the United States has already been found to be even more important, viz., higher commercial education. There is doubtless plenty of room for improvement in this respect, and I should be the last person to deny it. Contrasting, as I cannot but do, the ardent enthusiasm of the ever-increasing throngs of young men who frequent the

dozen or more great American Universities with the intellectual torpor and conservatism of our own commercial classes, one sometimes feels a sense of despair. But, after all, the large economic and political forces with which we have to deal—the pressure of every great nation toward industrial self-sufficiency, the law of increasing returns, the consequences of fixed capital, the results of the trust movement—are bigger elements in the problem than the organisation of education, important as this is. The first requisite for industrial success is confidence, and English manufacturers cannot feel confidence unless they can feel reasonably sure of their market somewhere.

(2) The second alternative may be called the bounty policy. This has recently been urged by so high an agricultural authority as Sir James Blyth:

"My proposal, . . . shortly stated, is to . . . encourage agriculture by making from our Exchequer, for a term of years, a direct grant to the Treasury of each colony, based upon the quantity of any produce or raw material coming to us from that colony over and above the quantity now being shipped, not as a bounty to producers, but as a moiety of a sum to be disbursed for the extension of agriculture, the other half being contributed by each colonial Government." [1]

It is significant that Sir James Blyth is himself a Liberal, and that he shelters himself behind the cautiously-expressed half-approval of one of his own leaders:

[1] Letter to the *Times*, August, 1903.

"Higher taxation of a competitor's foodstuffs is not the only way of extending trade with our own kith and kin. Mr. Haldane, in his instructive article 'The Cabinet and the Empire,' in the July number of the *British Empire Review*, recognises this, and says, 'If we are to assist the colonies financially, direct grants in aid would surely be safer and cheaper than any such departure into the wasteful and ill-explored region of indirect taxation."

Of course, grants, bounties, or subsidies are all almost as obnoxious to the extreme free trader as tariffs; they all involve the turning of enterprise and labour into channels into which they would not have gone of themselves. And so Mr. James Bryce took occasion recently to protest against the subsidy given to the Cunard Company to enable it to hold its own against the American shipping combination, adducing much the same arguments as are brought against the levy of duties:

"He must enter a protest against anything in the nature of subsidies; and he wished to know whether this agreement was the beginning of a policy? . . . Subsidies were interminable, because, once begun, it was impossible to say when they would stop; they were unfair to the unsubsidised steamers; they gave rise to lobbying, and to the intrusion of private influences into the political sphere; and they provoked counter subsidies in other countries."[1]

But to those who have no such objection on principle it must be pointed out—(1) that it is extremely difficult to devise wise means of encouraging

[1] The *Times* report, Aug. 13, 1903.

agriculture in the colonies which the colonial Governments are not already employing; and (2) that the plan has in mind only one of the objects of an Imperial policy—the better supply of our food and raw materials—without any regard to the other and more important object, the obtaining of a securer basis for our export industries. It may, indeed, be intended that the colonies should give us a substantial preference in return for these grants. But this is hardly likely if Great Britain offers subsidies (to which the colonies are expected to add an equal sum) instead of the preference for which they actually ask.

(3) The third alternative is that of the Socialist. In its milder form it may be found in the "manifesto by the Fabian Society, edited by Bernard Shaw," entitled "Fabianism and the Empire," which appeared in 1900. Here there is, it need hardly be said, a complete breach with the older orthodox economics:

> "Mere old-fashioned free trade talk will have no effect on a generation which has not been educated in Manchester economics. . . . The most active reformers have reason to prefer the affable frankness of the Conservative Minister who laughs at his own ignorance and is willing to be coached through his Bills to the unteachable Liberal, who feels bound by the Cobdenite tradition to affect the doctrinaire in political science and economics without genuine knowledge of either."

The authors of the manifesto still adhere to Free Trade as a policy: to impose duties on

imports is, in their opinion, "an easy, weak, lazy, and hopelessly ineffectual way of dealing with foreign competition." Their own main remedy is "a properly organised consulate." The functions of this organisation are not very clearly described. The following sentences give the main features so far as they are set forth:—

"We want an Imperial Institute at every important (foreign) port or inland trade centre, and at every likely-to-be-important port or centre with which we trade. At that Imperial Institute the British trader will find ready for him an Exchange for the exhibition of samples of his products . . . and a consulate of experienced men, not wasting their time in writing reports for home which . . . nobody attends to, but making it their business, as experts, to catch and advise the British trader until he, too, becomes an expert. . . . The consulate could itself act as broker, if necessary."

I must confess I do not know what "catching" the British trader is intended to mean. However, from this nebulous explanation of the consul's immediate duties, the transition is rapidly effected to a completely socialised foreign trade:

"When the time comes for our foreign trade to outgrow private enterprise, and be carried on by an industrial British fleet instead of by lines of commercial privateers, such a developed consulate will furnish the administrative machinery for the change. . . . Any person who thinks this application of Socialism to foreign trade through the consular system impossible also thinks the survival of his country in the age of the Powers impossible."

But they seem to recognise that even this remarkable specific of a reformed and magnified consular service is not likely to meet all the needs of the situation. And hence they add:

"What Socialism can do is to guide and develop export trade on the one hand, and on the other to *nationalise* such *necessary trades as agriculture, engineering, &c.*, if the course of free trade threatens to take them abroad (as it might take abroad the business of national defence if we put up our military expeditions to be tendered for by competing contractors)."[1]

And again:

"When a trade is fairly beaten, and is not *a necessary part of a complete communal life*, its capital and labour must seek a new outlet."[1]

But what enormous concessions have we here! Here it is recognised that there are such things as "necessary trades," "parts of a complete communal life," which may be "threatened by Free Trade." If so, the questions to be answered are: (1) What are "necessary trades?" (2) Are they, as a matter of fact, threatened? and (3) How will "nationalisation" help them? Will nationalisation help "engineering," for instance, unless it can ensure a market abroad for the engines produced, and ensure a supply of the necessary raw material, *e.g.*, steel plates? Certainly the programme does not look a promising one, and I quote it only to show the sort of alternatives to

[1] "Fabianism and the Empire," pp. 50, 51.

which those are driven who really open their eyes to present tendencies.

For the same reason I now quote a statement of an even more thorough-going Socialist character. It is from a recent manifesto of the Independent Labour Party.[1]

"Recognising that the loss of our export manufacturing trade is only a matter of time, we should begin at once to adopt two courses to avert the consequences. We must throw off all the unnecessary burdens which hamper British foreign trade, so as to preserve as much of it as possible until we are in a position to be largely independent of a vast foreign trade. . . . Small incomes should be wholly relieved from taxation, and a heavily graduated income tax imposed which will give back to the nation a considerable part of the large incomes of the non-industrious. Local taxation must be raised from the social increment on land and monopolies. The railways and the mines must cease to be used as instruments for extorting enormous profits from industry."

The railways and the mines must all be nationalised.

"These financial and industrial reforms, which an intelligent Parliament would carry out in a short time, would so relieve British industry as to give

[1] "The Chamberlain Bubble," by Philip Snowden, Chairman of the I.L.P. (1903). It is prefaced by the following note:—"This tract is issued with the approval of the National Administrative Council of the Independent Labour Party. The writer alone is responsible for the matter, but the tract may be accepted as a general statement of the position of the Independent Labour Party on the subject with which it deals."

another twenty-years lease of life to its export of manufactures. . . . These reforms would be immediate palliatives, and they would be steps to the gradual reorganisation of industry on the basis of production for use and the establishment of a Co-operative Commonwealth. But we must begin at once to make the land the foundation of our industry. In this is the only possibility of national salvation. In the land of England we have the means of making our nation a self-sustaining nation. . . . Landlordism must go before agriculture can be revived. But it would be the first work of a democratic Parliament to put the people once more in possession of their own. Briefly indicated, this is the policy which we submit as an alternative to Mr. Chamberlain's Zollverein."

I do not propose to discuss this programme. It seems to me to be utterly inconsistent with human nature, as it is likely to remain for centuries to come. But, like the Fabian manifesto, it has the merit of seeing that there is a problem to be solved, and the problem that of the life and death of British industry.

[ADDENDUM to p. 155. The Board of Trade Memorandum since published (No. XXX. in Cd. 1761), reckons at 32 millions sterling the value, even now, of the imports from foreign countries to the self-governing colonies, which there is no obvious reason why the United Kingdom should not supply them with, under a preferential system. To these must be added like possibilities in the case of India, Ceylon, Malay Settlements, West Indies, Egypt, Cyprus, Rhodesia, and the newly-acquired South African colonies.]

CHAPTER VII.

THE INCIDENCE OF CORN DUTIES.

THE practical question immediately before the country is whether Great Britain shall impose a small duty on imported wheat from which the produce of her colonies and dependencies shall be partially or altogether exempted. I do not know that any quite authoritative statement has yet been made as to the amount of the proposed duty. The nearest approach to such an authoritative statement is "2*s*. or 3*s*. a quarter."[1] It is therefore the effect on the price of bread of a relatively small duty of something like this amount that we have now to consider.

Let us begin with the theory of the matter. Undoubtedly the burden of import duties often falls entirely on the importing consumer. That it always falls entirely on the consumer is still, in the language of Professor Edgeworth, "the common free trade opinion." But in this extreme form it has long ceased to be held by all the more eminent economists. By way of introduction to his own subtle analysis of the matter, Professor Edgeworth has cited a number of expressions

[1] "Handbook for Speakers" (Birmingham Tariff Committee), p. 19. [Two shillings is now the definite proposal.]

for and against the alleged "axiom of political economy that a tax on foreign commodities is" always "borne by the importing country." It is not a little significant that the voices for the proposition are all of politicians and controversialists, and the voices against are all of economists of high reputation, including, among the older writers Senior and Mill, and, among the more recent, Professor Bastable of Dublin, Professor Nicholson of Edinburgh, Professor Seligman, the best known American writer on taxation, and, of course, Professor Edgeworth himself.[1] So that the doctrine that under certain circumstances an import duty may be paid in part by the foreign exporter may now be called the orthodox view, "if by orthodoxy we mean the views commonly held to be authoritative."[2]

The reasoning on the subject which will be found in the writers above mentioned is some of it exceedingly abstract and difficult. But the main consideration which carries weight with them may be readily stated in their own words. According to Professor Seligman:

"It may happen that the importing country constitutes either the sole market for the commodity, or such an important part of the market that the producer finds it impossible or difficult to extend his sales in other countries. To the extent that this is true, the producer finds it to his interest to avoid any

[1] Edgeworth in the *Economic Journal*, iv. (1894), p. 43.

[2] Seligman, "The Shifting and Incidence of Taxation" (1899), p. 303 n.

substantial diminution of the demand in his chief market. This can be accomplished, however, only by his consenting to bear a portion of the tax himself."[1]

Or, as the same idea is put in somewhat different words by Professor Nicholson: "If the taxing country has been taking a large part of the foreign supply (a partial buyers' monopoly), the foreigner may be compelled to bear part of the tax to lessen his loss."[2]

Professor Conrad, the editor of the well-known German economic encyclopædia—himself, be it remarked, a vigorous opponent of the increase of duties demanded by the Agrarians in Germany—thus judiciously opens his own discussion of the subject:

"The influence of the duty will *vary with* the economic situation of the country and *the height of the tax itself*. The old school started from the proposition that the duty, as part of the cost of production, must find complete expression in domestic prices, and therefore must be borne completely and entirely by the consumers. More recently, owing chiefly to the stimulus given to it by Prince Bismarck, the opinion has been advocated in Germany that the foreigner has to bear the tax. The truth here, as elsewhere, lies in the middle."[3]

Professor Edgeworth, in the article before referred to, has taken the trouble to collect a number of instances in which the foreign

[1] "The Shifting of Taxation," p. 301.
[2] Principles of Political Economy," iii. 342.
[3] "Handwörterbuch der Staatswissenschaften," iv. 338.

producer has been compelled by a tariff to reduce his prices. But it was hardly necessary to do this. This is one of the not infrequent cases in which ordinary business common sense has preceded the economists. The common protectionist teaching that "the foreigner pays the duty," stated in that broad and unqualified way, is an immense exaggeration; and it is of course inconsistent with the very purpose of protection. But that the foreigner has often to make considerable concessions on account of a duty is known too well in almost all business circles in England.

Now, the state of affairs in which, according to the authorities above quoted, it is likely that the exporting country will pay a part of the duty is exactly that which exists in the relations between Great Britain and our chief present source of supply for wheat, the United States. Great Britain is beyond comparison America's most important customer. This is shown by the following table,[1] from which I omit the proportions which do not rise above ½ per cent:—

PERCENTAGE OF AMERICAN WHEAT DISTRIBUTED TO THE SEVERAL COUNTRIES IN 1901.

	Value.	Quantity.
United Kingdom ...	58·70 ...	59·50
Netherlands	9·48 ...	9·15
Belgium	8·60 ...	8·35

[1] Put together from the two tables in "Distribution of Agricultural Exports of the U. S., 1897—1901" (U. S. Department of Agriculture, 1902), pp. 66, 158.

	Value.	Quantity.
Germany	8·13	7·78
Canada	5·37	5·35
Portugal...	3·16	2·90
Portuguese Africa ...	1·00	1·23
France	·90	·86
British Africa	·77	·77
Denmark...	·82	·75
Peru	·63	·74
Italy	·70	·70
Chile	·43	·51

The natural result is that the English demand is one of the chief factors in determining the price paid for American wheat. This is clearly recognised by the representatives of the American wheat-raising interests; and it was repeatedly pointed out by them in their evidence before the United States Industrial Commission. It may be sufficient to quote the following utterances of the General Business Agent of the National Farmers' Alliance. They are doubtless not free from exaggeration, but they are good evidence of American opinion:—

"If we have but one customer who will buy our surplus crop, he most naturally is anxious to pay no more for it than he can possibly get it for, and will use every agency to make the price as low as possible; and this is the price that is set on the entire crop of the world, and is the measure that will establish the value of farm crops of the American farmer.

"England is our chief and practically our only customer on whom we must depend to take our crops off our hands. As a natural consequence, any agency that will create competition and give us another market for our surplus products will stimulate prices

which competitors will establish in order to secure the products that they must have. . . . Thus it will be seen how important it is that we have a market and trade relations with the countries of the Orient, where we would dispose of that vast volume of grain on our western slope, which can be done in four to six weeks, and get this volume of grain out of the way, and not let it hang like a millstone around the neck of prices on our farm products at a time of year that farmers are marketing the bulk of their products. Why not, then, bend every energy of this great nation to establish new and friendly relations with Asiatic countries, whom we could induce to take a large share of our surplus products, and take it at a time of year that would help to stimulate prices and compel England, who is practically our only customer, to come to our Atlantic seaboard and compete for what is left of our surplus crop? "[1]

In the nature of the case it is impossible to adduce any statistical *proof* that the American producer would be compelled to do what other producers in similar circumstances have been compelled to do, viz., bear part of the burden of a duty imposed in what is by far his largest market. The figures that have been adduced concerning wheat prices in France and Germany under a protective system are of little value either way—(1) because it is the overwhelmingly larger English demand which mainly determines the world's prices, and (2) because over a large part of Germany wheaten bread is a luxury, and the ordinary food of the people is rye. The nearest parallel is the German demand for Russian rye,

[1] "Report of U. S. Industrial Commission," x. 287.

inasmuch as in this case Germany is almost the only market for Russia. And therefore it is important to observe that it is the general consensus of opinion among German economists who have looked into the matter that Russia does usually pay a part of the German duty. I may quote the following passage from the careful statistical inquiry made by Professor Lexis in 1889[1]:—

"The market conditions which concern rye are essentially different from those of wheat, and therefore the effect of the duty is very different. . . . In the case of rye, Germany is the only great importing country, and Russia the only considerable exporting country. . . . So that Germany represents the world-market for rye; of course, only on a modest scale when we compare it with the corresponding position of England with regard to wheat, since the average German importation of rye is only some 700,000 tons. But as more than three-fourths of this amount comes from Russia, the German demand has a very decisive effect on the price. The effect of the duty depends chiefly on the mutual relations of the German and Russian harvests, &c., and with good harvests on both sides, probably the whole of the duty is thrown upon Russia, which can find no other considerable outlet for its surplus. If, on the other hand, the German harvest is unusually bad, Russia, with a good harvest, is the more able to profit by it, inasmuch as it is the chief source of supply for this grain."

This is confirmed by Professor Lexis's careful examination of the course of prices in the several German markets during the years 1881 to 1886, which is the more worthy of study because he

[1] "Die Wirkung der Getreidezölle," pp. 28—35.

shows the differing effects of the duty at the different seasons of the year.

Although not unimportant changes had since taken place in the position of Germany, the same conclusion was reached some ten years later by Professor Conrad. This writer, who has specially devoted himself of late to the study of agricultural prices, has endeavoured to dissuade his countrymen from any large increase of the duty on wheat, on the ground, among others, that the price of wheat is determined by the world-market, on which Germany has little influence. But with rye, he says, it is different :

"In the case of rye the general world-market concerns us little. Here Germany with its requirements is decisive, and Russia faces her as by far the most important source of supply. It is the relation of the harvest of the one country to the other which determines the price. The Russian surplus is peculiarly in need of the German market ; and when that surplus is large the seller is bound in large measure to bear the duty. If, on the other hand, the surplus is small, the buyer must make concessions at least up to the amount of the duty."[1]

Some slight notion of the way in which the Russian producer (or merchant) shares the burden of the duty, may be gathered from the following figures[2]:—

[1] "Handwörterbuch," s. v., *Getreidezölle*, iv. 339.

[2] Given in Dr. Dade's article in "Schriften des Vereins für Socialpolitik," lxxxxi., 42. They do not indicate the whole effect of the duty, inasmuch as the duty in some years probably depresses in price in Russia.

WHOLESALE PRICES OF FOREIGN RYE, WITHOUT AND WITH DUTY, IN THE DANZIG MARKET, 1886—1899.

[In marks per metric ton.]

	With Duty.	Without.	Difference.	Duty.	Apparent share of Foreigner.
1886	120·2	96·6	23·6	30	6·4
1887	108	87	21	30	9
1888	121·9	82·8	39·1	50	10·9
1889	149·6	99·5	50·1	50	·1
1890	159·4	112·8	46·6	50	3·4
1891	208·1	160·5	47·6	50	2·4
1892	174·2	148·7	25·5	35	9·5
1893	123·4	99·6	23·8	35	11·2
1894	110·4	79·2	31·2	35	3·8
1895	116·2	81·7	34·5	35	·5
1896	111·8	97·7	34·1	35	·9
1897	Figures	not given.			
1898	142·3	111·9	31·3	35	3·7
1899	139·5	107·3	32·2	35	2·8
				Average ...	4·95

The position of Great Britain is in this respect more favourable in its relation to American wheat than that of Germany in relation to Russian rye—that England is by no means so dependent for its supply on the one country. In seasons when the American harvest is poor there is usually a good deal of wheat to be obtained from the Argentine Republic, India, Australia, Russia, and other countries.

The authority of the economists whom I began by quoting, confirmed as it is by the analogous case of Germany, justifies us, I think, in anticipating with some confidence that the effect of a small duty on American wheat would not, other things being equal, be to increase the price by anything like the full amount of the tax. What precise effect it would have it would be foolish to attempt to definitely estimate; the factors are so complicated. But considering the figures given above as to Russian rye, and remembering also that the shilling a quarter duty imposed in England last year had apparently no effect at all on price, it is probably not an excessively sanguine conjecture that a duty of 2*s.* 6*d.* per quarter would send up price, at most, by 1*s.* 6*d.*

The next question is, what effect would such a slight increase in the price of wheat have upon the price of bread. To answer this we must first learn how large are the variations in the price of corn, which are, as a matter of fact, now needed to affect the price of bread. Some conclusions on this point are suggested by the following comparison:—

PRICES OF WHEAT AND BREAD, 1884—1892.

[The figures for wheat are for British wheat,[1] and are those of the "Agricultural Returns," as

[1] The prices of British wheat differed but little from those of foreign, as may be seen from the chart in "Wholesale

extracted in the Board of Trade volume on "Wholesale and Retail Prices," just issued. Those for bread are for London, and are based on returns from the Battersea and Greenwich Co-operative Societies. They are taken instead of other bread prices given in the same volume, because they form a continuous series and represent a working-class consumption. It should be added that the artisan co-operative societies follow in their charges the usual movement of outside prices, and aim at giving their shareholders the benefit of the co-operative system, not in prices, but in "dividends." The year 1884 is selected as the starting point, because wheat prices then first—but then also definitively—fell to the lower range since current.]

	Average Price per Imperial Quarter.		Mean Price per 4 lbs.
	s.	d.	d.
1884	35	8	5·5
1885	32	10	5·1
1886	31	0	5·0
1887	32	6	5·1
1888	31	10	5·1
1889	29	9	5·1
1890	31	11	5·0
1891	37	0	5·6
1892	30	3	5·4
1893	26	4	5·0

and Retail Prices," p. xxiv. They are more convenient here, since they are given in quarters. It is hard to understand why the Board of Trade should not save the inquirer the trouble of converting quarters into cwts. or *vice versâ*. It would be a simple business to give both,

	Average Price per Imperial Quarter.		Mean Price per 4 lbs.
	s.	d.	d.
1894	22	10	4·5
1895	23	1	4·4
1896	26	2	4·6
1897	30	2	5·2
1898	34	0	5·6
1899	25	8	4·8
1900	26	11	4·9
1901	26	9	4·9
1902	28	1	5·0

These figures are evidently highly artificial. The annual average price of wheat is somewhat artificial to begin with, and that of bread is still more so. Changes in bread prices move by $\frac{1}{2}d.$ per quartern (4 lbs.). A rise, therefore, from $5d.$ to $5{\cdot}1d.$ simply means that most of the bread was still sold for $5d.$, but that about a fifth of it was sold for $5\frac{1}{2}d.$ Still, this is the best evidence we have so far obtained for our purposes. It will be seen on inspection of the figures: (1) that the price of bread does not vary in any exact proportion to the price of wheat—nor would one theoretically expect it to do so, for the cost of the raw material is not the only cost to the miller and baker; (2) that no constant relation can be established. The price of wheat may apparently fall by as much as $2s.$ $9d.$ (1887—1889), without affecting prices at at all; and a change of a whole $\frac{1}{2}d.$ on bread may correspond to a change in wheat of $4s.$ $8d.$ (1884—1886) downwards, of $3s.$ $6d.$ (1893—1894), also downwards, or to a change of $7s.$ $3d.$ (1889—1891) upwards; while a whole penny may

correspond to a movement of no more than 7*s.* 10*d.* upwards. From this we may conclude that when the baking business is in a fairly satisfactory condition, a change in the price of wheat is not likely to make itself felt in bread prices unless it moves to the extent of at least 3*s.*, and that it may not have any effect even if it is as much as 6*s.* or 7*s.* Of course, a duty may just bring up wheat prices, which are otherwise rising, to the point at which the millers and bakers will demand and obtain higher flour and bread prices. But, reverting to our earlier tentative anticipation that a 2*s.* 6*d.* duty would at most mean an increase of 1*s.* 6*d.* on the price of the quarter of wheat, we may go on to the further conclusion that such a rise will, as a rule, not affect the price of bread at all, and that it will, at most, occasionally hasten a ½*d.* rise, or retard a ½*d.* fall, on the quartern loaf. This provisional conclusion may be compared with the only estimate from a competent agricultural authority which I have yet seen, that of Sir James Blyth, who speaks of "a duty on foreign corn sufficient to raise the price of wheat all round by 5*s.* the quarter," as "equal to one-halfpenny the quartern loaf."[1] If this is to be the result of a 5*s.* rise, it is obvious that it will seldom be the result of a 1*s.* 6*d.* rise.

Some additional light may be cast on the subject by the rules of trade policy which the millers and bakers have for some time attempted to carry

[1] Letter to the *Times*, Aug. 11, 1903.

out. These have been kindly communicated to me by gentlemen intimately acquainted with the working of the several trades. As a rule, I am told, millers advance the price of flour 6*d.* per sack of 280 lbs. for every advance of 2*d.* per 100 lbs. in the price of wheat—*i.e.*, for every advance of about 10d. per quarter (480 lbs.). The general understanding in the several bakers' associations is that they shall advance the price of bread ½*d.* per quartern for every advance of 4*s.* in the price of the sack of flour. But this would be equivalent to a rise of 6*s.* 8*d.* per quarter in the cost of wheat. Thus, if the avowed policy of the trades concerned were carried out, it would need —starting from a level at which they were making a satisfactory profit—a rise of 6*s.* 8*d.* per quarter to bring about a ½*d.* rise on bread. The complaint that they cannot get their members to unite in regulating prices on this scale is not easy to reconcile with the figures before quoted, which seem to show a larger advance. Still, this account of trade policy is worth quoting to show how rare and inconsiderable the effect of a 1*s.* 6*d.* rise on wheat would probably be.

It may be argued that "in principle" all duties resemble one another which affect the cost of living, whether much or little. But when we come to their actual effect the difference between a large duty when the price of wheat is already very high and a small duty when it is low may be all the difference between a crushing burden and

no appreciable burden at all. When Cobden entered upon his public career the price of wheat per quarter was between 60*s.* and 70*s.*[1]; it now varies between 22*s.* and 34*s.* The duty was then 36*s.* 8*d.* when the price of corn was 50*s.*; 26*s.* 8*d.* when 60*s.*; 10*s.* 8*d.* when 70*s.* Even under Peel's sliding scale the duty at 50*s.* the quarter was 20*s.*

Any duty which is at all likely to be proposed nowadays must have an almost incomparably slighter effect, even supposing the people were only as well off now as they were then.

But there can be no sort of doubt that the mass of the people is now a good deal better off than it was sixty years ago. There is a deplorably large "residuum"; and, above these, how large the proportion is that is "living in poverty" may be variously estimated according as we define "poverty," but in any case is only too great. Nevertheless, there is abundant reason to believe that on the whole the standard of living has been able to go up considerably. Anyone who doubts the usual official and optimistic arguments to this effect may be referred to Mr. Sidney Webb's Fabian pamphlet "Labour in the Longest Reign." Cobden took as the basis of his estimates an average labourer's earnings of 10*s.* a week:

"The bread-tax is a tax primarily levied upon the poorer classes; it is a tax, at the lowest estimate, of

[1] According to his speech of Sept. 28, 1843, "the average price of wheat in the three years 1839, 1840, and 1841 was 67*s.* 1*d.*; the price in 1839 being 70*s.* 6*d.*; in 1840, 66*s.* 4*d.*; in 1841, 64*s.* 5*d.*"

40 per cent. above the price we should pay if there were a free trade in corn. The report upon the handloom weavers puts down *ten shillings* as the estimated weekly earnings of a family, and states that in all parts of the United Kingdom that will be found to be *not an unfair estimate of the earnings of every labourer's family.* It moreover states that out of 10s. each family expends 5s. on bread. The tax of 40 per cent. is, therefore, a tax of 2s. upon every labouring man's family earning 10s. a week, or 20 per cent. upon their earnings."[1]

He constantly referred to the agricultural labourers of his time as living on the very verge of existence; and in 1844 he referred to the average wages in Gloucestershire as "only 8s. to 9s., and in many cases 7s. and 6s."[2] But even agricultural labourers obtained a rise in their weekly wages of 48 per cent. between 1850 and 1899, according to the Board of Trade inquiry in 1900. In the county where earnings were lowest, viz., Suffolk, they were 14s. 5*d.* in 1898; and the average earnings of agricultural labourers throughout England were 16s. 10*d.*[3]

As earnings have gone up, and the price of bread gone down (for in 1838—1840 it was 10*d.* for the 4lb. loaf, in 1841 9*d.*, in 1842 9½*d.*[4]), the price of bread has come to mean far less to the

[1] Speech of August 25, 1841.

[2] Speech of March 12, 1844.

[3] "Report on the Wages and Earnings of Agricultural Labourers" (Board of Trade), 1900, pp. 2, 3.

[4] "Wholesale and Retail Prices" (Board of Trade), p. 221.

working classes than it did in Cobden's day. There are two pieces of evidence in this direction which are very striking.

(1) Cobden and his friends always maintained that the price of bread bore a direct relation to the extent of pauperism. He declared in 1844, "Pauperism increases as the price of food rises; and, in short, the price of the loaf is in a direct ratio proof of the increase of pauperism."[1] And, six years later, he was equally clear on the subject:

"Take the question of pauperism. I will not shrink even from the test of pauperism in the agricultural districts; I have the statistics of many of your unions in Buckinghamshire and Bedfordshire, and I warn the protectionist orators, who are going about persuading themselves that they have a case in the matter of pauperism, that when Parliament meets, and Mr. Baines is enabled to bring forward the Poor-law statistics up to the last week (not going to the 'Blue-books,' and bringing forward the accounts of the previous year), I warn the protectionists that, with regard to the test of pauperism, even in the agricultural districts, it will be seen that things are more favourable now, with bread at a moderate price, than they were in 1847, when prices were to their hearts' content, and the loaf was nearly double the price it is now."[2]

But whatever may have been the case in Cobden's time, there has long ceased to be any close and obvious relation between pauperism and

[1] Speech of March 12, 1844.
[2] Speech of January 9, 1850.

the price of food. This is shown by the following figures for the last forty years :—

AVERAGE PRICE OF CORN, AND AVERAGE RATIOS OF PAUPERISM, IN FIVE-YEAR PERIODS.

[Inasmuch as the pauperism returns are for the 1st of January in each year, they could not be affected by the price of corn in that year; consequently allowance has been made for this in the following table. Thus, in the first quinquennial period, the average price of corn is given for the years 1863, 1864, 1865, 1866, 1867; but the average of pauperism is given for the 1st of January in the five years 1864, 1865, 1866, 1867, 1868. From this calculation the number of pauper lunatics has been excluded, so that the figures do not exactly tally with those in the official returns.]

Period (inclusive years).	Average Price of Wheat.		Average Ratio of Pauperism per 1,000 of Population.
	s.	d.	
(1) 1863—1867 ...	48	$2\frac{3}{5}$	... 44·7
(2) 1868—1872 ...	54	6	... 42·9
(3) 1873—1877 ...	52	6	... 29·8
(4) 1878—1882 ...	45	0	... 29·1
(5) 1883—1887 ...	34	$8\frac{3}{5}$	... 27·2
(6) 1888—1892 ...	32	$1\frac{4}{5}$	... 24·8
(7) 1893—1897 ...	25	$8\frac{3}{5}$	... 24·5
(8) 1898—1902 ...	28	$3\frac{3}{5}$	... 22·4

It will be observed that between periods (1) and (2) there was a rise in average price, but a fall in pauperism; then a persistent fall in average price

and in pauperism; and finally, between periods (7) and (8), a rise again in average price, and a continued decline in pauperism.

(2) Much the same is true of the connection between the price of wheat and the marriage rate. The matter has been carefully worked out statistically and diagrammatically by Mr. Bowley.[1] It will be sufficient to state his conclusion:

> "When wheat was the chief object of expenditure of the working class, its price was the chief thing for them to consider; and when wheat rose the marriage rate fell. On the other hand, now that wheat is cheap and wages higher, a change in the price of the loaf is only of great importance to a minority; it is now the general prosperity of the country, well indicated by the condition of foreign trade, that raises the marriage rate."

To sum up. The price of food matters much less to the working classes than it did half a century ago; bread is much cheaper, earnings are a good deal higher, and the small duty that is suggested would probably, by the great body of the nation, be hardly felt at all. But it is to be observed that bread is not the only practically necessary expenditure even of the poorer working classes. We possess nothing like as much information as to "workmen's budgets" as we ought to have, and such budgets as we can find are mostly useless for our particular purpose, because they do not give the several items in sufficient

[1] "Elements of Statistics," pp. 174—177.

detail. Almost the only budgets available are those compiled for the Economic Club (1896) and those in Mr. Rowntree's "Poverty" (1901). And there, in the expenditure of even the poorest labourers, constantly appear, as we might expect, besides flour or bread, tea, sugar, tobacco, and frequently currants and raisins, coffee and cocoa. If it should be thought that a small duty on imported corn would tangibly affect the working classes, it would not seem to be difficult to compensate them by a readjustment of the taxation on these articles, which are all subject to duty, and there seems no reason in human nature why the "untaxed teapot" should not be as popular as the "untaxed loaf."[1] If the duty were taken off Indian tea alone, the measure would have the additional merit of giving a real advantage to the Indian producer, and as China tea is now the luxury of a few persons of sensitive nerves, a possible slight rise in its price would not be felt by the nation at large.

It is true that when we get to the absolutely poorest class — the very fringe of the working population—the place occupied in their diet by bread increases and the other elements of expenditure dwindle away. Hence, such small additional

[1] So in the "Study of the Diet of the Labouring Classes in Edinburgh," by Drs. Paton, Dunlop, and Inglis (n. d.), which deals with the very poorest part of the working population. Sugar always appears; frequently jam; sometimes currants and raisins. Tea does not appear, simply because it is left out as not being technically a "food material."

cost of food as a moderate duty may possibly occasion will fall relatively more heavily on them. But—and this is often forgotten—it is true of much other taxation, that even the very poor do not quite escape from its pressure. Local rates, for instance, are not directly paid by them, but by their landlords; but undoubtedly some[1] part of the charge is ultimately shunted by the landlords upon their tenants in the form of rent. The argument that nothing should be done which can possibly still further depress the condition of those on the margins of existence, if logically applied, would put a veto on all municipal expenditure. And it has constantly been urged—both by the vestryman who comes into power on the cry of "Low Rates," and by the extreme individualist, like Mr. Herbert Spencer—against all public expenditure on such things as schools, parks, libraries, public baths, &c., &c. But most of us think that in these cases the probable benefit counterbalances the possible harm. And if we have grounds to believe that a preferential policy—of which a small duty on corn forms an initial stage — may at the same time arrest the decay of English trade and consolidate the Empire, we can in like manner proceed with a reasonable confidence.

[1] ["Some"—which is all that is required by the present argument—replaces "a large" in the first edition. For the older doctrine of the incidence of rates, see Fawcett, *Manual*, bk. iv., ch. 5; for more recent subtleties, Edgeworth, *Econ. Jour.*, x. 183, and *Memoranda* (C.—9528, 1899).]

CHAPTER VIII.

SOCIAL REFORM—PEACE AND RETRENCHMENT—WORLD POLITICS.

THE supreme object of English statesmanship, in the period on which we have now entered, should be to obtain as secure a basis as may be for the economic life of the nation, and, if some redistribution of industry should prove to be necessary, to moderate its pace and to confine it as far as possible within the limits of the Empire. And it is not difficult to see the bearing of this task upon the future progress of social reform.

The machinery which has been created step by step in Great Britain during the last fifty or sixty years for the peaceful adjustment of labour difficulties in most of the staple trades—the whole apparatus of formal or informal wages boards and conferences, resting on well-organised associations of employers and employed—may well be regarded as among the greatest contributions of this country to the progress of civilisation. It arose first in Great Britain, it has here acquired most solidity, and, if it survives here, it will continue to serve, as it now serves, as a model to the rest of the world. Its destruction would be a

misfortune for humanity. And yet the rapid decay of our staple industries would inevitably have that effect. In the cotton trade, for example, a gradually shrinking market will mean repeated reductions of wages, against which the unions will strike in vain; with the number of unemployed the reserve of available non-unionist labour will increase; and the level of wages will fall until it will seem hardly worth while to keep up the unions at all.

The injurious effect of foreign competition on trade unionism has already made itself felt in the metallurgical trades. It is foreign example which largely explains the action of the employers which led up to the last great engineering dispute. In this case, indeed, the responsibility by no means rests altogether on the shoulders of capital. The union had shown a regrettable unwillingness to adapt itself to the new conditions caused by recent improvements in processes of manufacture, and if its leaders were unwilling or unable to deal with the situation in a statesmanlike way, the employers were bound, in the interests of British trade as a whole, to come to an open breach. But, on the other hand, many of the employers had before their minds, as the ideal for which they should strive, the conditions which they knew to exist at Homestead and at Essen. They knew that the Carnegie management had succeeded in crushing unionism in its works; they knew that the Krupp system was one of extreme paternal

government. And it was easy to jump to the conclusion that American and German success were actually due to the absence of unionism. In reality, the cost of labour has not been a fundamental factor in the recent German and American advance. The German advance (such as it has been) has been due chiefly to intelligence and science, the American advance (a far more serious matter) to intelligence and natural resources, and both of them to a certain large statesmanship in the disposal of economic forces—especially to that policy of "integration of industry" of which both the Krupp executive and Mr. Carnegie have given such striking examples. The determination of the English employers—which, fortunately, they were finally induced to abandon—that the whole system of "collective bargaining" should be given up went to an extreme as mistaken in one direction as the excessive conservatism of the men was in the other. A complete victory on their part would have thrown back the whole movement for industrial organisation, and it might have been unfortunate for themselves by concentrating their attention on what was, after all, not the central point.

I have referred to the engineering dispute simply because it indicates in one industry what is bound, in my opinion, to occur in all our staple industries as the foreign market becomes more and more insecure. To fight the intenser competition, the employers will demand, and will have a right

to get, a freer hand. Trade unionism thrives best in an expanding market; a tolerably steady market is a condition of its existence.

We have seen, moreover, that the diminution of our older staple exports is already being partially made up for in our statistical returns by the sending abroad of certain relatively new manufactures, the product of low-grade and cheap town labour. In social life cause and effect are inextricably intertwined, and, while it is the presence of the labour which creates the new industry, it is the existence and growth of the industry which fixes and increases the supply of cheap labour.

Now, it is this low-grade labour (and the low-grade humanity which it involves) which is the despair of social reformers. In Mr. Booth's "Life and Labour of the People," we are again and again told of the deteriorating effects of London life. Speaking, for instance, of the constant "drain of countrymen into London," we are told that—

"London draws them in by her varied attractions, her flaring gaslights, her crowded streets, her busy life, and her countless chances which strike the imagination, and contrast with the dull monotony of rural life. She draws them in, she gives them good work to do, often she places them above her own children, but sooner or later, it may be in the first generation, or the second, or the third, the spell may fall on them, and the process of deterioration begin."[1]

[1] H. Llewellyn Smith, "Influx of Population," in Booth, original edition, i. 554.

"At the beginning of the erection of the Tower Bridge, the proportion of Londoners was considerably greater than at present. Many were taken on at first, but were soon found unprofitable workmen, or at least inferior to the Northerners. In the opinion of those who have the enterprise in hand, this is universally the case; a man from London does not stick to his work so well as a man from Sheffield or the Tyne, and may be roughly said to be one-third less productive. No exact record of the places from which labourers come is kept, as men are taken on without recommendation, but there is no doubt of the inferiority of London labour, as indeed of that of any capital city."[1]

"Two theories have been put forward in a previous volume, the one that the London-born man deteriorates and sinks into poverty, elbowed out by the vigorous and successful immigrant, the other that this tendency has a centripetal aspect, with the result that men or generations of men in London gravitate inwards and downwards, as if caught in a pit, out of which escape is difficult."[2]

More recently, one who knows well "the new race," "the city type," from residence among them in Camberwell, has thus described the

"characteristic physical type of town dwellers — stunted, narrow-chested, easily wearied; yet voluble, excitable, with little ballast, stamina, or endurance— *seeking stimulus in* drink, in betting, in *any unaccustomed conflicts* at home or *abroad*."

"*The apparently inexhaustible supply of unskilled labour has resulted in the building up of whole industries, dependent on the cheapest, crudest forms of manual service.* No demand is made on the higher energies of the vast armies employed of girls, boys, women,

[1] "Life and Labour," orig. ed. i., 542.

[2] *Ibid.*, ix. (1897), p. 32.

and men, with no enterprise, ambition, or stamina. *A kind of sodden mass of unskilled industry* has thus been created, resisting . . . the spasmodic attempts of State or municipality to encourage self-improvement, education, or the craving for a wider outlook or a deeper knowledge. The existence of this unparalleled aggregation, the dying out of the industrial energy, initiative and determination to 'get on,' so characteristic of the North, these are the general conditions which are filling observers of the ghetto life with dreary forebodings for the future."[1]

And yet, if things go on as they are, we must expect this aggregation, this degradation, to proceed at an increasingly rapid pace. Dependent as we are on other countries for our food, we must produce something to sell to them in return. As the forces now at work, which have already been analysed, cause our older exports to shrivel up and make our staple manufactures less "advantageous," we shall be driven insensibly to those industries in which we enjoy the unfortunate "advantage" of this "sodden mass" of low-grade labour. And as the industries grow, the task of the social reformer will become more and more unmanageable.

In these two groups of considerations there is surely abundant reason for the social reformer to hesitate before he definitely refuses to support a preferential policy. It is easy to say that the condition of the people cannot be improved by

[1] C. F. G. Masterman in "The Heart of the Empire" (1901), pp. 8, 28.

taxing their food, though this assumes what is not certain—that a preferential policy involves the taxing of food in any really noticeable way. But those who say this may perhaps for once be reminded, even by one who does not share Bastiat's view of life, of that old "tag" of his: the difference between "things seen" and "things not seen."

Not only should the social reformer pause; the old-fashioned Radical, whose cry used to be "Peace and Retrenchment," should pause, also, before he opposes a policy of commercial control. It is not without its significance that some of the most prominent advocates of naval expansion have already taken up their position in the Free Trade camp. The more dependent this country becomes on foreign supplies of food the more necessary does an ever increasingly large fleet become to us, capable of coping, as the phrase goes, with the navies of any two other Powers. It is only if inter-Imperial trade grows—if, for instance, our supply of corn comes to be chiefly from our own Colonies and dependencies; and only if the trade of the great self-governing Colonies with the Mother Country comes to dwarf their trade with other peoples—that the Colonies can be expected to take any real interest in Imperial defence. No appeal to sentiment can help us here. This little island will have to bear the whole burden of the Empire until it is made the

obvious interest of the daughter countries to bear their proportionate share. As things are now—as things are going to be if the Empire continues to break up—it cannot honestly be said to be their interest.

Nor, as things are now going, can we look forward to an era of peace. Whether, even up to the present, Free Trade has had a uniformly pacific influence may be doubted: we may recall Cobden's surprise at the readiness of the free trade manufacturers of Yorkshire and Lancashire to keep open by force the door of China.[1] One wonders what he would have said had he lived to listen to the debates of two or three years ago. He would have heard, for instance, this passage in the speech of a prominent Liberal member of Parliament for a Yorkshire constituency:

"We heard with great satisfaction that Her Majesty's Government had at length determined to do something to uphold British commercial interests by the placing of gunboats on the inland waterways of China for the protection of British trade. . . . When gunboats were needed for the upper Yangtsze, the Admiralty decided to send out two Nile gunboats. This is a serious matter, so far as the commercial interests of this country are concerned, because *a British cargo-steamer is expected to be plying on the upper Yangtsze* within the next month or two; *and in all probability the half-million Chinamen now carrying on the trade on the river will regard this innovation as a menace to their livelihood, and trouble will arise.* It is imperative that gunboats capable of going

[1] See above, p. 43.

wherever they may be required, without shore assistance and without regard to the state of the river, should be placed on the upper Yangtsze immediately."[1]

This is a passage which must almost be seen to be credited. It reminds one of the attitude of many of the earlier free traders who believed so completely in freedom of labour that they were prepared to compel the working man to remain free. Many of the free traders of to-day so believe in the open door that they are prepared to compel other and weaker nations to keep their doors open against their will. And we are pained when other Powers regard our self-righteous protestations that we wish everybody to be admitted on equal terms[2] as colossal hypocrisy! Whatever may be said about the relations between Imperialism and Militarism, we may be pretty sure that, if our European markets are closed to us and no inter-Imperial market obtained instead, the Lancashire and Yorkshire manufacturers will drive us into war to keep open the door of China. And, if that proves impossible, they will clamour for "a sphere of influence," which means conquest.

And now, finally, as to the Empire. For the last five or six years some of the most distinguished and influential of German writers have

[1] Joseph Walton, M.P. Statement in the House of Commons, March 30, 1900; printed in his "China and the Present Crisis," pp. 238, 239.

[2] *Cf.* Walton, p. 222.

been dwelling upon the idea of "the three world empires." It was not original with them; it was set forth more than twenty years ago by the late Sir John Seeley, and it has certainly been in the mind of many a statesman since. But it is only recently and in Germany that it has come into the arena of popular political discussion. Among German writers, moreover, the idea is by no means the exclusive property of the "Chauvinist" or "jingo" section; equal emphasis has been laid upon it, for instance, by a man like Dr. Francke, the very sober leader of the moderate social reform party.[1]

The idea is that, if the British Empire succeeds in consolidating itself, there will, in a not distant future, be three world-powers—the United States, Russia, and the British Empire—so vast in their resources that every other Power will be likely to fall into an altogether subordinate and inferior position. The moral which was drawn for Germany was that it should not hesitate to create a fleet and take every opportunity to strengthen itself before the world was finally partitioned, so that it should at least occupy by-and-by a respectable fourth place.

The future of Germany is not our immediate concern. What may properly have a lesson for us

[1] See his article in "Handel- und Machtpolitik." His weekly journal, "Sociale Praxis," is the best record of industrial legislation and labour movements of all kinds all over the world.

is that these observers saw in the grant of preference by Canada in 1897, and in the subsequent "denunciation" of the Belgian and German treaties by Great Britain, the beginning of the consolidation of the British Empire. They could not but believe that the Mother Country would respond to the colonial overtures.

The forecast itself, so far as it relates to the United States and to Russia, must, I do not hesitate to say, be accepted by all serious observers. As to the future of the United States, I am relieved from the necessity of prophecy by my entire agreement with the prophecies of Cobden and Bright, except in the one point of external territorial conquest, as to which the Spanish-American war has revealed aspects of American character of which Bright and Cobden were unaware. As to Russia, the present standards of life and thought among its peoples are so low, and the financial position of its Government is at present so weak, that its development is likely to be much slower. But the vast unbroken mass of its territory, and the physical resources which will enable it to become completely self-contained, must tell in the long run. Even now, for instance, its growing independence of America in the matter of cotton—which it is now producing for itself in Turkestan—must be a subject of envy to Lancashire.

But will the British Empire be the third world-power? And, in the first place, do the English people desire that it should be?

I certainly shall not set about trying to *prove* that it should. It is hardly a matter susceptible of proof; it is rather a question of one's general attitude toward life. And I can understand the state of mind of those who would have England contentedly live on its memories and its scenery, and become the Switzerland or Holland of the twentieth century. But I, for my part, am loath to see the English people surrender their share in guiding the destinies of the world. With all our faults we have, I would fain believe, something in our traditions, our institutions, our conceptions of duty, which should be valuable elements in the world politics of the future. Of Russia one need not speak; much as one dissents from the vulgar Russophobia, the experiences of the recent European intervention in China are enough to make one hesitate to leave her without any adequate check in the Eastern Hemisphere. And as to America, many of her best citizens would agree that she has still too much to learn in the art of administration to serve as the only great example to the world of democratic government. Moreover, I see no reason to believe that a "little England" would be a prosperous England. It might have been so if we could have stayed in the Elizabethan age; it might conceivably be so again five centuries hence, when a complete transformation of its economic character had taken place. But for an indefinite time to come England's industrial life is too large

—thanks to Free Trade—to rest happily on an insular basis.

Before passing on from the desirability to the probability of a future British Empire, there are two observations to be made. The first is that the policy of "Anglo-Saxondom" is economically an altogether impracticable one. It is difficult for one to speak frankly on this point who has so many good friends among American citizens. To many cultivated Americans England is very dear. But I am sure that we in England enormously exaggerate the effect on ordinary American sentiment of the tie of blood; we also habitually underestimate the large and growing proportion of the American people which, although it speaks English, is not of English descent. It is not only Tammany that does not naturally love us. There is no reason why the descendants of the Dutch families of New York, the Germans of St. Louis, the Scandinavians of Minnesota, should think tenderly of this country. What a shrewd American observer feels about it may be seen in Mr. Dooley's amusing account of the Italian Anglo-Saxon Club and the Polish Anglo-Saxon Club, and so forth, of the city of Chicago. But whether pro-English sympathies are strong or weak, they will do nothing to mitigate the severity of the economic struggle on which we are entering. The forces of capitalistic production know nothing of sentiment—not that they are immoral, they are simply non-moral; and the same man might,

with a perfectly good conscience, give a church or a library to an English town, and as president of an American company, simply to keep his plant going and his men in employment, cut prices in such a way as to throw out of work half the people in the English town he had adorned.

The other remark is that it behoves us to recognise the naturalness of the attitude of Germany. I cannot but think that those writers who have been harping of late on German ambition, and collecting all the disagreeable things that certain German writers have been saying of us, have done an ill turn to both countries. We ought to realise that German soreness is natural enough. If our country was one which at the beginning of the sixteenth century was prosperous and taking the lead in trade and manufactures—a country which then became the battlefield of the rival religious confessions of Western Europe, and came out of the Thirty Years' War devastated and disheartened; that then bore the brunt of the ambition of Louis XIV. and of Napoleon; at last slowly regained its strength and secured its unity, only to find that in almost every direction England had snapped up all the opportunities for colonial expansion, and that it could join in the "partition" only when all the best parts had been already taken—if this was *our* country, *we* should feel sore. We should probably, most of us, be Pan-Teutonists; and if our perhaps-too-audible dreams of a time when Teutonic Austrians,

and even Teutonic Swiss and Teutonic Dutch, shall rejoin the parent stock were quoted with expressions of horror by writers of the very nation that was conquering the Boers, we, also, should talk of "British hypocrisy." For, of course, other nations judge us, not by what the *Spectator* has thought from time to time we ought to do, but from what, as a matter of fact, we have done.

The German Government, in seeking to stave off the consolidation of the British Empire by penalising Canada for its preference and thereby threatening Australia and South Africa with similar treatment, was only doing its evident duty. It was quite possible it might succeed; considering how England had protested its allegiance to Free Trade, it was not altogether unlikely that it would patiently submit to the rebuff. Anyhow, Germany was bound to try. But now that it has evidently failed, it will accept the inevitable. "It is only too easy to understand that we should hesitate to adopt extreme measures and involve ourselves in a tariff war. Considering the extent of our dealings with England, it is evident that many German interests would suffer thereby." It is not a politician, but an economist, who is speaking.[1]

As to the present iron and steel competition, they may need to be met by vigorous defensive measures. But these also Germans can readily understand. And the question of the future is

[1] Professor Rathgen in "Schriften des Vereins für Socialpolitik," p. 158.

not German and English competition so much as American competition with both countries.

Germany and England are naturally marked out to be friends by their position in face of the United States and Russia. And if Germany seeks to secure an outlet for her population in distant possessions worth having—*e.g.*, in Mesopotamia—and if she seeks to secure by treaty a permanent trade with the German people of southern Brazil, it is difficult to see why this country should not watch her efforts with benevolent neutrality.

But now about the British Empire; is it likely to hold together? After some years of residence in Canada and some study of Australian politics, I feel sure that it will break up unless some means can be devised to make our colonial fellow-subjects feel a common interest with us. We must remember that the population of the colonies is largely descended from those who left England because they could not find there a comfortable livelihood. Much as Great Britain has done for her colonies, the prevailing sentiment is not gratitude, and we should not expect it. The temporary wave of British enthusiasm during the South African war should not blind us to the permanence of the disintegrating forces. Cobden had no doubt that Free Trade would "gradually and imperceptibly loose the bands which unite our colonies to us,"[1] and those who know what

[1] Letter of 1842 in Morley, ch. ix.

are the ordinary every-day interests of the ordinary Canadian or Australian cannot but agree with him. As Cecil Rhodes put it, in his remarkable letter of 1891 to Sir John Macdonald, which has just been published—

"The whole thing lies in the question, Can we invent some tie with our Mother Country that will prevent separation? It must be a practical one, for future generations will not be born in England. The curse is that English politicians cannot see the future. They think they will always be the manufacturing mart of the world."

Such a tie a gradual and cautious adoption of a preferential policy would in large measure supply, though much else, of lesser importance, will need to be done. And it will supply it *not* only because of "sordid" material interest, but because of the common intellectual interests which it will help to create. The present danger is not that we and our colonial fellow-subjects think unkindly of one another, but that at present we have not sufficient reason to think of one another at all.

For the present tendencies of feeling among Australians the reader may be referred to the discussion a couple of years ago over the Imperial Appeal clauses of the Commonwealth Constitution. And for the state of mind of the "country folk" he should look at the remarkable contribution to the *Times* of August 31st, 1903.

About Canada, however, there is this in conclusion to be said. Although a British preference for wheat would be of assistance to wheat-growers

in other colonies and dependencies, including India, it would, from the nature of the case, benefit Canada most of all. And this is the "psychological moment," perhaps the opportunity that will never recur, for such an arrangement. The wheat-growing capabilities of Canada are certainly enormous.

"Leaving out of account the area between the North Saskatchewan and the head waters of the Churchill river, the Peace river district and the valleys of the Athabasca and the Upper Mackenzie rivers, all proved to produce wheat of the finest quality, but as yet too remote from the markets of the world to allow of wheat being produced for export, the area of Manitoba, Assiniboia, Alberta and Saskatchewan makes up a total of 242,168,000 acres, by far the greater portion of which is suitable for the production of wheat.

"Taking only half of this area and allowing only ten bushels to the acre, the result would be over three-fifths of the world's present consumption of wheat, which is in good round numbers two thousand million bushels."[1]

And the wheat area actually under cultivation and the annual yield are steadily growing. 1900 in Manitoba was a bad year, with a small yield. The returns for the next two years were :

MANITOBA.

	Acreage under Wheat.	Total Yield. Bushels.
1901	2,011,835	50,502,085
1902	2,039,940	53,077,267[2]

[1] From the *Field, Garden, and Forest*, Brandon, Manitoba, August, 1902, quoted in the "Annual Report of the (Canadian) Department of the Interior," 1902.

[2] The "Statistical Year Book of Canada," p. 102.

Never before had the yield been higher than 31 million bushels (in 1895).

NORTH-WEST TERRITORIES.

	Acreage.	Yield.
1901	504,697	12,808,447
1902	625,758	13,956,850
1903 (Expectation.)	727,998	15,042,000[1]

It is the North-West that is being developed most rapidly, and this as the result of the remarkable influx of farmers from the United States, which is so novel a feature in the history of Canada after long years in which the movement has been the other way.

"The returns of arrivals from the United States again show a large increase over the preceding year. . . . The settlers that continue to cross the border, in ever-increasing numbers, and settle within the wheat-growing areas of Manitoba and the Territories, are certainly of a very desirable class. The current of immigration from the United States since 1898 has been a steady one, and it has now assumed such proportions that it is bound to increase in volume from year to year. The fact is now well known to every agriculturist in the Western States . . . that the soil of the Canadian West is the best suited in the world for the growing of wheat and other cereals, and that there are still millions of acres of such land available for entry or for purchase at a reasonable price. The enterprising farmer, realising that every foot of the public domain within the boundaries of his state has already been disposed of, will not fail to see the

[1] Bulletin 8 of Department of Agriculture, N. W. Territories (July 15, 1903).

opportunity of seeking in Canada the free homestead for which he would look in vain to-day at home. Upwards of eighty-six thousand settlers from the United States have located in Manitoba and the North-west Territories since 1897, and from the present indication it is reasonable to predict that double that number will cross the border during the coming five years."[1]

And what bearing has this on the tariff question? Simply this, that the growth of the agricultural element in Canada will drive the Government of the Dominion to seek to obtain as favourable a market as can be found for agricultural products, and primarily for wheat. The building-up of a number of thriving agricultural provinces in the Canadian centre and North-West will enormously benefit such Canadian manufactures as those of agricultural implements and railroad rails and rolling stock. The unnecessary alarm of certain manufacturing interests in Canada at a preferential arrangement with any country, the Dominion Ministry will therefore be able to disregard. Some reciprocal arrangement it will be bound to seek, and for the present it offers to make it with Great Britain. But, if Great Britain hesitates, Canada will undoubtedly turn elsewhere. For its politicians to hint this is not to threaten; it is but to express the logic of the situation. Considering whence the new settlers come, and what their present sympathies are, the Canadian Government,

[1] Report of the Deputy-Minister in "Annual Report of the (Canadian) Department of the Interior," p. xviii.

failing to come to terms with Great Britain, will be forced to turn to the United States. The United States, taught by recent experience that its previous coercive policy has been a failure, will accept Canada's overtures; and that will be the beginning of the end so far as the Imperial tie with Canada is concerned.

Some twelve years ago Mr. Edward Blake, then the leader of the Liberal Party in Canada, resigned his position because he was of opinion that the policy of Commercial Union with the United States—which was then the policy of his party—was bound to lead to Annexation.

"The tendency in Canada of unrestricted free trade with the States, high duties being maintained against the United Kingdom, would be towards Political Union; and the more successful the plan the stronger the tendency, both by reason of the community of interests, the inter-mingling of populations, the more intimate business and social connexions, and the trade and fiscal relations, amounting to dependency, which it would create with the States; and of the greater isolation and divergency from Britain which it would produce; and also, and especially, through inconveniences experienced in the maintenance, and apprehensions entertained as to the termination of the treaty.

Our hopes and our fears alike would draw one way."[1]

For Annexation, Mr. Blake believed the country had not yet made up its mind. But it is back on

[1] Letter of the Hon. Edward Blake to the West Durham Reform Association, 1891.

that policy of Commercial Union that Canada will be driven with all the more impetus, when the alternative policy has failed and the agricultural interests in Canada have become stronger.

There are those who object to a preferential policy on the ground of the friction that such negotiations are likely to produce. But the great self-governing colonies will certainly negotiate with some country or other, and, recognising this, we ought surely to be the first to try our hands at an amicable bargain.

CHAPTER IX.

FOREIGN INVESTMENTS — SHIPPING — ENGLAND AS ENTREPÔT—THE YEAR 1872—EXPORTS AND PRICES, &c.

THE opportunity of a second edition enables me to deal briefly with two or three topics which were unavoidably omitted in the rapid preparation of the foregoing chapters.

And first with regard to the balance of exports and imports. It is recognised by all who have seriously considered the matter, that, even if year by year exports and imports exactly corresponded with one another in their values in the country of origin, there would be an excess of imports over exports in the trade statistics of each particular country where exports are valued as they leave (*i.e.* without freight), and imports as they arrive (*i.e.* with freight). It is realised also that, in the case of Great Britain, the vast and long-continued excess of imports is to be understood as partly the payment of interest or profit upon investments in other countries, and partly the earnings of our carrying trade. The two essays of Sir Robert Giffen on the

subject[1] have for years been part of the ordinary reading of every student of economics; and doubtless the estimates there given by him, and more recently brought up to date in the well-known "Memoranda" of the Board of Trade,[2] set forth fairly enough the larger features of the situation. It is perhaps still necessary that these things should be reiterated on the platform; but among serious thinkers they can be taken for granted. In reality, when all this has been recognised, we are only at the threshold of the subject. The problem—both from the financial and social point of view—is exceedingly complicated and difficult; nor is anyone yet in command even of the accessible information that should be regarded as preliminary to an altogether confident conclusion.[3]

[1] "The Excess of Imports" (1877) and "The Use of Import and Export Statistics" (1882), in the first and second series respectively of "Essays in Finance."

[2] 1903, Cd. 1761—Mem. V.

[3] Accepting, as one must, the general conclusions of the Giffen and Board of Trade estimates as valid for present conditions, I put the following critical observations into a footnote, so as not to disturb the course of the argument.

It is to be hoped the Board of Trade will not content itself with the very slight effort represented by Memorandum V. As an answer to an arithmetical question it may suffice for the moment; but it goes a very short way towards explaining the tendencies of our international relations.

(1) It is notorious that during the years 1901-1902, the United States re-purchased from Europe, and particularly

Assume that Great Britain is living largely on the profits of its investments abroad and on the earnings of its shipping, is that a satisfactory posture of affairs or a comfortably safe one? Adam

from Great Britain, large quantities of American securities. A competent financial authority whom I have consulted estimates the amount at £100 millions (agreeing roughly with certain American estimates quoted in von Waltershausen, "Handelsbilanz," 1901, p. 51), whereof 75 per cent. were from this country. It is true that during the current year Great Britain has been again adding to some extent to its American investments; and it would be rash to jump to the conclusion that we are beginning to "live upon our capital." But the Board of Trade Memorandum, while it mentions that the outflow of American capital "affected the balance" in those years, is chiefly anxious to point out that it would diminish the income remitted to England annually only by the amount of its interest. The Memorandum does not lay sufficient stress upon the very considerable effect of so large a repayment upon the import statistics of those years.

(2) It is very desirable that we should be able to survey the whole movement of European investment in America and *vice versâ*, and ascertain not only the amount, but also the purposes for which the investment took place at the several epochs. Investment in America would have a different effect upon European industrial conditions according as it was for the war debt, for railways, or for "industrials." A beginning of such an investigation can be found in Professor Sartorius von Waltershausen's monograph, "Die Handelsbilanz der Vereinigten Staaten," according to which the Government securities had mostly returned to America by the end of the 'eighties. But the close relations of the Chancellors of the Exchequer to the great international financial houses will doubtless enable the Board of Trade to provide us with adequate information, when it undertakes the enquiry.

Smith has a chapter[1] in which he tries to determine the social advantage derived from the various possible employments of capital by considering the extent to which they "encourage and support domestic industry." His application of the idea is not very happy; but surely those of his critics, like McCulloch, who maintained that the only test of advantage was "profit to the individual and *consequently* to the state,"[2] went to an extravagant extreme. As Professor Nicholson says:

"It is for the interest of the capitalist to obtain a maximum profit, and the place where his capital is employed is to him so far indifferent. But to the labourer and to society at large the place is of vital importance. If capital is devoted to the construction of a railway in America, it may, in perpetuity, afford a much higher profit than if applied to the construction of a railway in England, but in the one case foreign labour is employed, and in the other English. In the first case, too, the American public is benefited, and gains all the advantages of the possession of this fixed capital. To take an extreme case, it is possible that if all the capital now devoted to manufactures in this country were sent to the United States it would yield great returns; but the labourers must in that case either follow it or starve. . . . When Holland became the great lending state of Europe its wealth and power steadily diminished. To come to our own times (1884), there can be no doubt that one of the chief causes of the late depression was the enormous transfer of capital from old countries, such as England, to new countries for the

[1] "Wealth of Nations," bk. ii. ch. 5.

[2] Note 123 in his edition of the "Wealth of Nations."

exploitation of their raw materials, and the construction of railways."[1]

Is it necessary to add that I do not cite such passages in the spirit of an appeal to authority? I cite them only to suggest that when we are told that the excess of imports means that the foreigner is paying "tribute" to our accumulated wealth, we should pause a while before throwing up our caps.

And now as to shipping. Our commercial marine is, of course, vastly greater than that of any other country; and the increases of foreign shipping in recent years look so large when stated in percentages, chiefly because the figures from which they start are so low. But when we come to look into the statistics, there is a good deal to occasion disquiet. For during the last six years English shipping seems to have entered upon that period of stagnation which we have marked in the case of the staple exporting industries. If, as I shall urge later, a nation's carrying business is not an independent thing, but closely bound up with the export trade of the country, it will appear intelligible that, exports reaching their quantity maximum in 1886-1890,[2] the decline of shipping should follow a few years later. The facts of the decline are briefly these:

(1) The hold of our shipping on the trade of the

[1] Introductory essay to his edition of the "Wealth of Nations" (ed. 1901, pp. 25, 26.)

[2] *Supra*, p. 103.

world is apparently loosening. A Liverpool observer, in an exceptionally good position for knowing the facts, accepts without reserve the conclusions on this head of the Board of Trade:

"Although the actual amount of the World's general trade carried during the last ten years by British ships has increased, the British shipowners have not been able to maintain to the full their hold on such trade. The figures published by the Board of Trade show that, whilst in 1891 and 1896 British ships represented 57 per cent. of the tonnage of the world, the proportion had fallen in 1901 to 50 per cent."[1]

(2) The share of British shipping in the trade even of British ports has been lately falling off. The tonnage of British shipping, with cargoes and in ballast, entered and cleared in the foreign trade at ports of the United Kingdom, rose between 1860 and 1890 from 56 to 72 per cent. of the whole; it had fallen in 1902 to 65 per cent.[2] During the six years 1896-1902 in particular the British shipping business, as thus estimated, increased but slightly —from 62 to 66 million tons; while that of foreign vessels rapidly advanced—from 23·4 to almost 35 million tons; which is not only a much larger relative increase but absolutely three times as much as the British gain.

[1] Norman Hill, "Fiscal Policy: Notes on the Trade of the Port of Liverpool," p. 10.

[2] The calculation of the writer of the articles on "Shipping Trade and Fiscal Policy," in the *Times* (Sept. 22, 1903), based on the Board of Trade figures.

Another method of stating what has happened, and this time with exclusive reference to steamships, is that adopted by Sir Robert Giffen:

"Between 1895 and 1900 the entrances and clearances of steam shipping at ports of the United Kingdom in the foreign trade increased from 70 to 90 million tons, and of this increase no less than 15 millions, or three quarters, belong to foreign shipping, and only 5 million tons, or one third, to British shipping."[1]

(3) In most foreign ports, British shipping business apparently reached its culmination about 1896, and a decline has since set in. The total tonnage of British ships entered and cleared in the foreign trade of the principal maritime countries did indeed slightly increase between 1896 and 1900, but the proportion of British to foreign tonnage fell off in every case but those of the United States and Portugal, where the proportion was practically stationary.

For the most important countries the proportions of British shipping (according to tonnage) were:—

	1896.	1900.
United States ...	52·4	52·8
Portugal	56·7	56·8
France	45·6	40·6
Holland	53·4	41·7
Belgium	51·7	44·6
Russia	49·7	37·3

[1] "Report on Steamship Subsidies," 1902; Evidence p. 2.

	1896.	1900.
Spain	33·4 ...	27·6
Germany	35·5 ...	26·9
Italy	40·5 ...	19·6[1]

And it appears from an analysis of the available statistics that while British trade (estimated in tonnage entered and cleared) in foreign ports increased notably during the six years 1890-1896, and was nearly stationary during the four years 1896-1900; the growth of the foreign shipping trade was four times as great in the first period and even more rapid in the second.[2]

All these comparisons ought to be interpreted even less favourably to England if we pay regard, as we should, to the fact that recently most of the great English passenger steamers on the Atlantic, together with some others, while remaining on the British register, have passed under American control. The tonnage of these ships has been reckoned at between 300,000 and 400,000 tons;[3] and a careful estimate by a well-informed authority makes these account for between 3 and 4 millions of tons entered and cleared, and needing to be deducted from the British figures.

(4) The decline of British shipping in foreign ports is clearly marked in the case of Germany, where it has been going on for some time; and it is obviously to be connected on the one hand with the positive measures of the German Government to encourage the national marine, and on the

[1] The *Times*, Sept. 25, 1903. [2] *Ibid.* [3] Hill, *u. s.* p. 7.

other hand with the protective policy, which hampers the sale in that country of English manufactures.[1] It is shown by the following figures, to which may be added those for the Dutch and Belgian ports since they receive a large part of our German trade :—

PERCENTAGE OF BRITISH TONNAGE.

	Entrances.		Clearances.	
	1870.	1899.	1870.	1899.
Hamburg	60	30	62	41
Bremen	15	14	31	31
Amsterdam and Rotterdam	51	25	65	61
Antwerp	43	30	63	53

It is a commonplace with foreign observers that these great ports are becoming more and more independent of British shipping.[2]

[1] For the lessening proportion of English manufactures in the imports of Germany, 1890-1901, see *Memoranda* (Cd. 1761), p. 96. It is a pity that this Board of Trade volume does not give longer series of figures. Those for the total value of British produce exported to Germany may be collected from a set of *Statistical Abstracts*. From these it appears that (omitting 1871-1875 as exceptional), it reached its highest point in 1868 and 1869 with 22 millions sterling, a figure it did not again reach till 1896 and 1898. The subsequent increases in 1899 and 1900 have since been lost.

"Das Festland hat es verstanden sich in seinen Beziehungen zu den überseeischen Gebieten selbständiger

(5) Very remarkable has been the increase of competition in the shipping trade of the far Eastern and Pacific seas. And more significant perhaps in this direction than the comparatively recent appearance of five or six new national lines of mail steamers, even than the surprising development of the mail lines of the North German Lloyd, has been the way in which German enterprise has pushed itself to the front in the *coast trade* of certain parts of the east. Thus the rice carrying and other business of Siam is rapidly falling into German hands, owing to the purchase by the North German Lloyd Company of the Scottish Oriental and Holt lines and its building of a considerable number of new steamers. Between 1898 and 1900, the German proportion of tonnage at Bangkok rose from 7 per cent. to 45 per cent., while the English fell from 78 per cent. to 38 per cent. And equally significant if not quite so striking figures could be given for the growth of German shipping business in French Indo-China.[1]

(6) And, finally, it has to be noticed that already, before the wave of general trade depression has reached us which is now overdue, the British shipping industry is in a very depressed condition. This is declared in no hesitating terms by a high

zu stellen." Wiedenfeld, *Die nordwesteuropäischen Welthäfen* (1903), p. 368, from whom also the above table is taken.

[1] They will be found in the most interesting lectures of Professor Schumacher, *Deutsche Schiffahrts interessen im Stillen Ozean*, in Schmoller's "Jahrbuch," xxvi. (1902).

authority which usually paints the prospects of our trade in the most cheerful colours:—

"It is doubtful if the condition of the shipping industry was ever worse than it is at present. . . . Conditions, it is to be feared, are very much worse than the 'man in the street' has any idea of. They are such as to cause much anxiety to those behind the scenes in financial circles." And after quoting with approval the remark of a Cardiff shipowner: "*The shipping industry is now passing through its most critical stage for the past fifty years*," it concludes "the plain English of the matter is that there are far too many vessels afloat for the amount of ocean trade doing, or likely to be doing in the near future."[1]

Sir Robert Giffen has remarked with his wonted moderation that "the figures are at least evidence of pressure and competition such as I do not recollect seeing in the Returns of Shipping for a good many years"; and that "though at the latest date our ship-building and ship-owning industries were expanding," the observed circumstances "tend on the whole to make us less secure of our continued predominance in the commercial marines of the world."[2] One need not be an alarmist, therefore, to feel that our continued ability to pay for increasing imports of food and raw materials by the earnings of our carrying trade is not beyond question. In the providing,

[1] Article on "The Extreme Depression in Shipping" in "The Economist," Sept. 12, 1903.

[2] Evidence (as above) pp. 2 and 4.

indeed, of a livelihood for men actually employed in the service (home, foreign, and fishing) the shipping industry is already, it would seem, of dwindling importance. Owing to the decrease in the number of sailing vessels, the number engaged fell from about 213,000 in 1890 to about 211,000 in 1900; and of the diminishing numbers an increasingly large proportion are foreigners, the percentages of the latter being:—

1870	9·2
1880	12·1
1890	12·7
1900	17·4[1]

It is very right that attention should be called to the magnitude of the interests involved in the shipping business of a port like Liverpool. It is proper to point to the increase in Liverpool's trade and population, and to urge that "if this growth has been in any way the result of the fiscal policy which has prevailed during the last two generations," that policy should not be disturbed.[2] But the only figures that are instructive

[1] Sir John Glover's "Tonnage Statistics, 1891-1900," in Journal of the R. Statistical Society, LXI. 28. Lascars are omitted on both sides of the account.

[2] As by Mr. Hill. It will be observed that Mr. Hill remarks, "I have been able to deal only with the volume of Liverpool business, because I have no means of stating with what profit or loss it has been carried on for the last ten years." In truth the Liverpool ship-owners have so long been complaining that owing to certain grievances, they were sailing their ships nearer daily to absolute loss,

are relative. We are given for Liverpool the following figures of population :—

1845	350,000.
1902	716,000.

But now compare with these the figures for Hamburg :—

1859	159,000
1895	625,000

and the implied conclusion disappears. Or again the following increases in tonnage entered

	1890.	1899.	
	Millions of Tons.		
London ...	13·1 ...	15·3 ...	17 per cent.
Liverpool ...	8·4 ...	9·4 ...	13 „

look eminently satisfactory. But set over against them :—

Rotterdam ...	2·9 ...	6·3 ...	116 per cent.
Antwerp ...	4·5 ...	6·8 ...	51 „
Hamburg ...	5·2 ...	7·7 ...	49[1] „

and again the glow of British satisfaction fades away. Moreover, while the optimists of Liverpool sometimes speak as if that port were secure of its trade, whatever might happen to the rest of the country, foreign observers speak of its shipping

that one who opposes fiscal change on the ground of the prosperity of the shipping interest might easily find himself in a strait betwixt two.

[1] " Report: Port of London " (1902), pp. 18, 19.

as relatively stationary, and explain it by the slackening movement of English industry contrasted with the rapid development of the country behind (the *Hinterland* of) the German, Dutch, and Belgian ports.[1]

The present maritime predominance of Great Britain shows itself in the fact that our shipping, besides moving most of our imports and exports to and from this country, does a large part of the carrying trade of the rest of the world. Our capitalists serve as intermediaries between other countries, either by putting them into direct contact with one another, or—what is more largely the case—by bringing their goods to England and re-exporting them thence. Many of those who write or speak on the subject seem to think that the existence of this carrying trade, this *Zwischenhandel* as the Germans call it, and the position of England as entrepôt, as the greatest collecting and distributing agency of the world, is, somehow, in the nature of things, and may be counted upon to continue. "We hold our own," says one distinguished politician, "because Great Britain is the centre of the industrial and commercial world . . . because we are the money market and the best market in other respects for the whole world." "Banking, broking, commission

[1] Wiedenfeld, "Welthäfen," p. 264, "Liverpool ist stehen geblieben, weil die Englische Industrie in ihre Expansionskraft unverkennbar nachgelassen hat."

and insurance business," says another speaker, "fall to us in unusual measure because we *happen to be* the commercial centre of the world." If it is asked why we have thus become the centre, the answer is usually because we can do business more cheaply, and in particular, because we can carry goods more cheaply; and it is often implied that this is the result of free trade. But, if anything is historically certain, it is that our maritime supremacy was won before we adopted Free Trade; and that Free Trade has but retained (or—to make every concession—confirmed) what had previously been acquired. How it was acquired, how it was that England in 1800 had come to occupy the position which Holland occupied in 1700, would require more than this chapter to try to set forth; and it must be confessed that our economic history has been so inadequately investigated that it could hardly be done satisfactorily in the present state of our knowledge. But one thing may be said with confidence, viz., that historically the carrying trade, the entrepôt business, has been largely bound up with the existence of a flourishing domestic industry and with the primary purpose of a nation's shipping—to fetch and carry its own materials and products. Thus "the trade of Holland apparently went on growing until the decline of domestic industry, which began about 1730, reacted unfavourably upon export." The most important branch of that trade had been in

the direction of the Baltic. Russian hemp, flax and tallow, Swedish iron, copper and timber, were distributed to the rest of the world by Dutch shipping; until in the latter half of the eighteenth century, as the same historian tells us, "England became the chief market for all the raw products of the north, *owing to the development of her manufactures.*"[1] "As a rule," says Roscher, the most learned of all the German economists, "those countries are able to engage in the carrying trade in connection with a particular commodity, which have come to constitute a great market for that commodity for the purpose of satisfying their own needs."[2] We cannot safely regard our carrying trade as a thing by itself, that can go on flourishing in spite of the stagnation of our manufactures. And hence the alarming character of the statistics with which this chapter opened is not removed by the consideration that our shipping is still increasing. It is no consolation for the Dutch to observe, on looking back to the eighteenth century, that, while Holland's share in the world's trade dwindled, its positive magnitude was long maintained.[3]

[1] O. Pringsheim, "Beiträge zur wirtschaftlichen Entwickelungsgeschichte der vereinigten Niederlande" (1890), pp. 11, 24.

[2] "Handel und Gewerbfleiss," 6th ed., § 16.

[3] Pringsheim, p. 12. Economic history has been too little investigated for it to be possible to compare with any closeness the development of Holland with that of England. Like us, Holland sacrificed its corn-growing agriculture to

Let me add to the indications of England's diminishing share which are given above one further example. It is furnished by the statistics of the Suez Canal traffic.

BRITISH PERCENTAGE OF THE TONNAGE OF MERCHANT CARGO VESSELS PASSING THROUGH THE SUEZ CANAL:—

1898	...	...	...	79·4
1899	...	...	...	77·2
1900	...	...	...	71
1901	...	...	...	71
1902	...	...	...	72·5

TOTAL TONNAGE OF MAIL STEAMERS PASSING THROUGH THE SUEZ CANAL, THE BRITISH PORTION THEREOF, AND THE BRITISH PERCENTAGE:—

	Total in thousands of tons.		United Kingdom.		Percentage.
1896	... 2,120	...	843	...	39·2
1897	... 2,200	...	818	...	37·1
1898	... 2,195	...	794	...	36·1
1899	... 2,283	...	793	...	34·7
1900	... 2,551	...	770	...	26·2
1902[1]	... 2,864	...	763	...	26·6[2]

its foreign trade (cf. Hansen "Bevölkerungstufen," p. 283). Niebuhr's remark about Holland in 1808 is well known: "the country is really inhabited only by rich men and by beggars." Since then it has more or less adjusted itself to new conditions. It is practically a free trade country, and a comparison of industrial conditions with those of Germany would be as instructive as some comparisons more commonly drawn. But that is not saying much.

[1] Figures for 1901 not given.

[2] These figures are taken from a series of Consular "Reports on the trade of Port Said and Suez." These

Return now to what may be called the doctrine of England as "the world's commercial centre." In almost every direction we may see indications that—under the operation of the tendencies that are already at work, and especially owing to the stimulus to industrial development in other countries furnished by their protective policy—England is beginning to lose this fortunate position. Liverpool is still the largest cotton market in the world; but it is no longer the case, as it was not so many years ago, that the Continent of Europe draws its whole supply from this source. "The Continental cotton import seeks more and more to free itself from the English markets";[1] the Bremen cotton exchange, reorganised in 1886,

reports used to give the percentage of British shipping of all sorts to total tonnage; but when this commenced to fall rapidly (from 76 per cent. in 1890 to 57 per cent. in 1901), it began to be pointed out that these figures included ships of war, and the percentage of merchant vessel tonnage was given (apparently only from 1898) as more reassuring. The argument against the inclusion of war ships is itself sound: and it is difficult to see why the "Report of the Shipping Subsidies Committee" (1902), p. xvi., gives the *total* figures as "a good criterion of the distribution of the world's tonnage." But (1) it will be seen that the merchant cargo shipping percentage shows marked signs of decline; and (2) it seems misleading to go, as the recent consular reports seem to do, to the opposite extreme and exclude mail steamers, apparently on the ground that they are subsidised ("Report for 1899," p. 6). I have reckoned separately the percentage of mail steamer tonnage above with disquieting results

[1] Sonndorfer, "Die Technik des Welthandels," p. 464.

now furnishes Germany with a large part of the raw material it requires;[1] Havre performs the same service for northern France; and other markets are growing up at Marseilles and Antwerp, and at Vienna (for Indian and Egyptian cotton). As a result, the export of raw cotton from England has been almost stationary for the last twelve years and in the most prosperous season it has never quite reached the figures of 1887.[2]

Precisely the same thing has taken place with regard to the distribution of wool, which was previously effected from London. The two following quotations from the government Statistician of New South Wales will sufficiently indicate the transformation now in process.

As to Australian trade in general:—

"Prior to the year 1883 the European trade of Australasia was almost exclusively carried on with the United Kingdom, but since that time direct

[1] For an account of the Bremen cotton exchange, see Wiedenfeld, "Welthäfen," p. 299. The purpose of the re-organisation of 1886 was to reconcile the interests of the manufacturers using raw cotton with those of the Bremen importers. Accordingly its governing board now contains representatives of the spinners of South Germany, of Alsace, of Saxony, of Westphalia, and even of Austria. Dr. Wiedenfeld remarks that though the Bremen exchange is still behind Liverpool in the quantity of its transactions, "they are large enough to exercise a determining influence on world-prices."

[2] And, of course, it falls far below the exceptional quantities of 1866 and 1871. The figures are given in the "Statistical Abstracts."

commercial relations have been established with the leading Continental countries. The British trade increased during the ten years ended 1891 by £13,457,708, equal to nearly 27 per cent.; while the trade with foreign countries increased during the same period by £8,649,203, or nearly 120 per cent. From 1891 to 1901, chiefly due to the cultivation of direct business relations with the Continent of Europe, trade with the United Kingdom only increased £3,150,846; while the foreign trade increased during the same period by the large sum of £11,738,115. The trade with British possessions was returned in 1901 as £15,387,679, as against £5,326,025 in 1891, and £7,336,156 in 1881. As compared with 1891, the year 1901 shows an increase in trade with the United Kingdom of 4·96 per cent., while with British possessions there was an increase of 188·91 per cent., and with foreign countries an increase of 74·0 per cent."

And more particularly in regard to wool:—

"Antwerp is the distributing centre for a considerable part of the wool destined for the Continent, and large quantities of this product landed there ultimately find their way to Germany, France, and other countries. The French, early in 1883, were the first to establish direct commercial relations with Australia; the steamers of the Messageries Maritimes, a subsidised line, making their appearance for the first time in Australian waters in the year named. In 1887 the vessels of the Norddeutscher Lloyd Company, of Bremen, commenced trading with Australasia; and in the latter part of 1888 a line of German cargo boats opened up further communication between the great wool-exporting cities of Sydney, Melbourne, and Adelaide and the ports of Antwerp, Hamburg, and Dunkirk.

"The result of these efforts to establish commercial relations is evident from *the diversion, now rapidly*

being effected, in the channel by which the wool required for Europe reaches the market. The example of the South American Republics, the bulk of whose produce now finds a market at the ports of Antwerp, Hamburg, Havre and Dunkirk without passing through London, was not lost on Continental buyers. It was manifest that direct shipments of wool to Europe could as readily be made from Sydney or Melbourne as from Buenos Ayres or Monte Video; hence the presence in the local markets, in increasing numbers, of buyers representing Continental firms."

The same authority gives the following values and proportions for the export of Australian wool:—

Country.	Value.			Proportion.		
	1881.	1891.	1901.	1881.	1891.	1901.
	£	£	£	Per cent.	Per cent.	Per cent
United Kingdom	15,777,327	19,891,218	13,497,871	97·8	82·7	71·3
France	26,965	1,386,768	2,003,197	0·2	5·8	10·6
Germany..	53,809	782,676	1,852,053	0·3	3·3	9·8[1]

In like manner London has lost its position as the centre for the distribution of tea:—

"The new facilities for direct transit render London no longer necessary as the general tea entrepôt of the world. Then, again, the existence of six or eight trans-continental lines of railway in North America, has caused the United States and Canada to obtain

[1] T. A. Coghlan, "The Seven Colonies of Australasia 1901—1902," Sydney (1902), pp. 1054, 1060, 1068.

a large portion of their tea supplies through their western seaboard, leaving Great Britain to supply, instead of all as formerly, only a small proportion of the requirements. Russia and Germany, although the latter is only a small consumer of tea, have established lines of steamers sailing direct from tea ports to Odessa, Hamburg and elsewhere; and, in addition to the trans-Pacific lines of steamers, there are now regular sailings from the principal tea ports of the East, via the Suez Canal, to New York."[1]

And we are told by the chairman of the P. and O. that "the silk trade, which before the days of the Messageries Maritimes centred in London, has all been now transferred to the Continent."[2]

The same change in the structure of the world's trade is going on in the case of several other commodities of less relative importance, and the cumulative effect cannot but be considerable. Thus London used until very recently to be the chief market for Manila hemp. But, since the annexation of the Philippines, the United States has not thought it inconsistent with its announced policy of the "open door" in these islands, first to impose an export duty on all hemp shipped therefrom, and then to give it back by way of rebate to American buyers of hemp shipped direct from the Philippines. The natural consequence has been to "give a great impetus to direct shipments

[1] Evidence of Mr. McEwan, a large tea-dealer, before the R. Commission on the Port of London, "Report" (1902), p. 22.

[2] Evidence of Sir Thomas Sutherland, quoted *ibid.*, p. 23.

to the detriment of trade through England."[1] It is understood, also, that from July next the Philippines will come under the general Navigation laws of the United States ; and that thenceforward hemp brought to England cannot be reshipped to America for at least one year without paying duty. If this is the case, it will go far to remove the chief market to America. That America should take that position seems so natural to most American citizens that they do not hesitate to take the necessary political means to hasten the transition.

In this instance we have the effect of foreign political changes. Another will show the effect on commerce of the rise of new manufactures, and that is the rubber trade. Liverpool still supplies the continent with a large part of its consumption of caoutchouc; but Hamburg is making unbroken progress, "and we cannot doubt that, at no distant date, it will be able to dispense with the services of Liverpool. Liverpool will have to realise that a chief consumer of rubber, the electrical industry, has not developed in England to anything like the same extent as on the continent, and especially in Germany."[2]

It need scarcely be added that many commodities are now being carried in increasingly large quantities direct to the continent of Europe, even although regular "markets" in the

[1] Hindley's Report, quoted in "The Economist Commercial History of 1902," p. 17.

[2] Wiedenfeld, "Welthäfen," p. 297.

commercial sense have not yet been established. This is markedly the case with Hamburg's dealings in palm-oil, in competition with Liverpool; and with Hamburg's trade in a whole group of "colonial wares,"—cocoa, rice, spices, tropical timber, as well as tea already referred to,—and also in hides; in all which cases the great Elbe port has made itself largely independent of London. "Hamburg merchants have forced their way into distant territories in which the London mercantile community was wont to reign without rival. This may not be so noticeable so far as quantity is concerned; nevertheless the position of the Thames trade in relation to these countries is being fundamentally modified, and the development now begun will inevitably go on; the breach has been made."[1]

A striking example of the transformation which a few years may bring in the organisation of international business is presented by the recent history of iron. Not so long ago Glasgow was "the centre of the iron trade, because it held the world's reserves of the metal." "Pig-iron used to be stored in enormous masses" in Connal's Warrant Stores, where "the stocks represented a considerable and often a large proportion of the world's annual production." Connal's warrant certificates became "favourite investment securities for iron manufacturers and outside capitalists";

[1] Wiedenfeld, "Welthäfen," p. 298.

while the facilities provided by these certificates "for the immediate conversion of their production into cash enabled the Scotch smelters to maintain their hold on the industry in spite of the rapid disappearance of the native ore." But now, although the Scotch production has not itself fallen off, "the furnaces of the United States turn out in one month half a million tons more than the furnaces in Scotland turn out in one year." Inevitably therefore, "the Glasgow warrant market is no longer the index of the world's iron trade"; warrant stocks have fallen from a million and a quarter tons in 1887 and 1888 to about 15,000 tons in June, 1893, and the directors propose to sell the land they no longer need for storage.[1]

To these indications of the lessening relative importance of England as entrepôt and business centre it will be instructive to add some observations on the position of London as a money market. Bagehot describing "Lombard Street" in 1873 could write as follows:—

"Everyone is aware that England is the greatest moneyed country in the world. . . . But very few persons are aware how much greater the ready balance is in England. . . . The bankers' deposits of London are many times greater than those of any other city—those of Great Britain many times greater than those of any other country." . . . The "efficient

[1] The quotations are all from an article on "The Revolution in Pig-Iron," in "The Economist," June 13, 1903.

and instantly ready organisation" of Lombard Street "gives us an enormous advantage in competition with less advanced countries—less advanced, that is, in this particular respect of credit. In a new trade English capital is instantly at the disposal of persons capable of making good use of the new opportunities. All *sudden* trades come to England. . . . And this unconscious 'organisation of capital' makes the English likely to retain any trade on which they have once regularly fastened," etc. etc.

Pass now over twenty-six years, and we find the editor of the later editions of the book compelled to point out that :—

"This pre-eminent position in regard to the relative magnitude of its resources the London market has not fully maintained. . . . A greater relative increase is shown by the New York associated banks. . . . The German banks now play a much more important part in cosmopolitan finance. Berlin is now an important market for foreign loans," etc.[1]

American observers, of course, are confident that New York is destined to become at no distant date the chief money market of the world. And certainly this expectation is suggested by some of the events of recent financial history. Thus, in 1899 and 1900 alone, New York subscribed twenty-five million dollars of Mexican debt, ten million pounds sterling of English debt, ten million dollars of Swedish debt, eighty million marks of German debt, and three million dollars of Montreal debt,[2] as well as large amounts of the Hamburg and

[1] "Lombard Street," 11th ed., 1900, pp. 4 *seq.*, 362.
[2] Von Waltershausen, "Handelsbilanz," p. 52.

Cologne city loans, and very considerable Russian railway issues. No wonder that abroad even cautious financial writers are beginning to speculate as to a possible shifting of the financial centre of gravity, in spite of the enormous prestige at present of the London market.[1]

All these phenomena have in part their own special explanation; and it is no doubt true that there are various reforms in our methods which are capable, in some measure, of checking the relative decline. But it is not easy to understand how, looking at the same tendencies making their appearance in so many directions, it is possible for any one to feel very confident that England will long retain her quite unique position as the centre of the world's trade, or the disproportionate share of the world's carrying business which has come to her in consequence. And there is this to be added, that a carrying trade which does not naturally grow out of a large independent home business is peculiarly defenceless against the restrictive legislation of other countries. If the

[1] "Des observateurs judicieux sont d'avis que, *depuis* 1893, *surtout depuis* 1896, l'Amerique du Nord est devenue l'un des facteurs principaux de nos vicissitudes économiques; l'axe de la balance monétaire s'est quelque fois déplacée. Il faut maintenant la chercher à New York autant qu' à Londres"; Raffalovich, "Le Marché Financier en 1899—1900," p. viii. "Nous avons indiqué ... que l'axe de la balance monétaire était susceptible de se déplacer, New York de devenir une rivale de Londres," "Le Marché Financier en 1900—1901," p. vi.

United States, in order to create a merchant shipping, is prepared to pay higher freights, there is no reason why the policy of the Navigation Acts, which was effective in the hands of England against Holland in the 17th century, should not be equally effective in the hands of the United States against England in the 20th century.

British shipowners have for some time been loud in their complaints (whether with reason or not): and it is interesting to observe what the remedial measures are which seem to find general favour. The Select Committee of the House of Commons on Steamship Subsidies reported unanimously in 1902 their opinion—among other less important proposals—

1. That "means should be taken to obtain the removal of foreign laws . . . which exclude British shipowners from the 'coasting trade'; and that, if need be, regulations for the admission of foreign vessels to the British and Colonial trade of the Empire should be used with the object of securing reciprocal advantages for British shipowners abroad."

2. That "subsidies are necessary" "in rare cases" "for establishing fast direct British communication, and that at the present moment such a subsidy should be favourably considered for a line to East Africa . . . where British trade is handicapped by foreign subsidised steamship lines."[1]

Now it is open to those who approved of this report to dissent from a defensive tariff policy on grounds of expediency, but it is no longer possible for them to dissent on grounds of principle. The

[1] "Report," pp. xxv., xxvi.

principle of retaliation, when the end in view is regarded as worth achieving, is already conceded. It is observable that Sir Robert Giffen, who gave evidence before the Committee, was inclined to go far beyond them in his advocacy of bounties to defend English shipping against bounty-aided foreign shipping. He recognised to the full the enormous difficulties involved in such a policy.

"It is extremely difficult to draw a limit, and I do not envy the Government which has to take the matter in hand. But the necessity is very great."[1]

And he did not hesitate to waive aside the supposed immediate interests of the consumer. Even supposing that foreign bounty-aided shipping meant low freights,

"I think the carrying trade so important, and the existence of merchant ships so important to the country, that no immediate advantage of that kind compensates for the political disadvantage."[2]

Expressions like these are not quoted as indicating necessarily a sufficient remedy for the evils complained of. They are quoted to show (1) that in the opinion of our most distinguished statistician the position of British shipping is so far threatened that he does not hesitate to advocate a vigorous interference with freedom of trade to balance a like interference on the part of other governments; and (2) that, if we grant that any other industry of vital importance for the country (*e.g.*, the steel

[1] *Ibid.*, p. 14.
[2] *Ibid.*, p. 17.

industry) is in serious danger, every one of these remarks is equally applicable to defensive tariffs on its behalf.

It is impossible on this occasion to deal adequately with the criticisms which have been directed against the first edition of this book. There are, however, a few matters to which it will be well briefly to refer.

1. Some criticism has been directed against the reference in Chapter III. to the year 1872. It has been pointed out with truth that the exports of that year were swollen by a number of unusual circumstances. But it will be seen on again looking at the chapter in question that the year 1872 is not there compared with any one single subsequent year: it occurs in what is a purely historical statement, viz., that that year does actually mark a maximum which was not reached again till 1890, nor greatly exceeded till 1900. Moreover, the statistics are there given for all the years 1805—1902, so that the reader is not at the mercy of any arbitrarily chosen figures.

When, however, we leave the bare historical statement and come to make comparisons, the path is strewn with pitfalls. Every possible selection of years is open to objection, and even quinquennial averages are almost as misleading. For, as everyone knows, the world's trade moves in cycles,—in periods of alternating depression and prosperity; a general movement which impartially

affects, with only minor variations of time and degree, all countries alike, whether free-trading or protectionist. That such a vast periodic wave-like current up and down actually exists is abundantly clear, whether with Jevons we connect it with a periodic variation of weather or are content to explain it by the tendency of the business mind to pass from hopefulness to foolhardiness. Hence the only fair comparison is of cycle with cycle, or of arcs of one cycle corresponding with equivalent arcs of another. And if the cycles would only occupy the same period there would be no difficulty. As a matter of fact they do seem to consist of something like ten years each. But they are seldom just ten years long: again and again depression seems either premature or overdue, and the same is true of inflation: so that neither decennial comparisons nor decennial averages can be trusted to give an exact impression of the actual posture of affairs. And it should be noticed that the disturbance (so to speak)—the hastening or retardation of the pendulum movement—is frequently due to more or less "exceptional" causes—a war, a famine, or the like. The "abnormality" of 1872, if we are to view it as such, differed only in degree from many a maximum and minimum year before and since.

Under these circumstances two courses are possible.

(i.) We may content ourselves with simple observation of the annual statistics. These may

be graphically represented by simple charts, such as those for exports and imports in the Board of Trade volume of "Memoranda."[1] And after looking at the chart of exports it ought to be possible to agree on some form of words which would describe the facts without pessimistic or optimistic bias. A simple comparison of the line from 1850 to 1872 and then from 1872 to 1902 ought surely to be sufficiently instructive to dispense with comment. Even if we flatten the curve at 1872 to allow for abnormal circumstances, we have to say that the upward movement marked by the several crests is slight and laboured compared with the upward rush of the movement in the '50's and '60's.

(ii.) Or we may adopt elaborate statistical devices to get at "the general tendency of the value of exports when accidental and temporary variations are removed." Fortunately Mr. Bowley selects this topic to illustrate therefrom the method of "smoothing curves" in his masterly manual of statistics. He first marks the line of annual exports; then over that a line of triennial averages taken annually (*i.e.*, for each year with a year before and after); over that a line of quinquennial averages taken annually; and finally over that a line of decennial averages taken annually. Having

[1] 1893 Cd. 1761. Charts, series A. iii. and iv. They may be compared with a chart for quinquennial periods of export, published by the Cobden Club as leaflet No. 128 (1901). This is equally good for the present purpose.

got all this, "the figures are completely smoothed by a freehand line." This smooth line can be seen in his book;[1] and again, it is surely possible to describe the difference in the shape of the line before and after 1872 without controversy. Mr. Bowley himself states it thus: "The smoothed line representing total value of British exports shows *a change of direction about* 1872, the upward movement ceasing soon after that date."[2]

2. It has been frequently urged of late that a halt or decline in the *values* of exports is no sufficient indication of stationary or diminishing trade; that regard should also be paid to prices and quantities. I do not know that this is a consideration to which the earlier free traders gave any attention. Thus, as late as 1878, Professor Fawcett spoke of "the stagnation of English trade during the existence of protection," and produced as his evidence the fact that "in 1841 the exports were about 51 millions a year, the precise amount at which they stood a quarter of a century previously" (in 1825);[3] though we now realise that during that period there had been a considerable fall in prices.[4] The argument,

[1] "Elements of Statistics," opposite p. 151.

[2] In the "Economic Journal" for Sept., 1903 (xiii. 305).

[3] "Free Trade and Protection" (ed. 1885), p. 54, and Summary, p. xix.

[4] According to Jevons' index numbers, from 109 in 1815 to 85 in 1841. The whole movement of change in the level of general prices between 1801 and 1902 is shown in the diagram given in the "Report on Wholesale and Retail

nevertheless, is one which deserves careful attention, and its bearing has already been recognised in this book.[1] In the first place, however, the argument cannot apply to most of the staple industries of the country, as will be seen on reference to the quantity figures given above in the cases of cotton piece-goods (p. 62), cotton yarn (p. 64), iron and steel (p. 65), worsted stuffs (p. 66), cloths and coatings (*ib.*), carpets (*ib.*), linen piece-goods (p. 67), jute goods (*ib.*), cutlery and hardware (p. 82). In most of these cases the quantity has notably diminished. And in the second place, the quantity or price argument is one which requires careful handling. It is evident that, where the cost of the raw material has fallen, or the process of manufacture been cheapened, a fall in the values of exports is quite consistent with an increase of prosperity in the trade. But, if we lump all the several export trades together, and calculate what the quantity sold would have fetched at some earlier price, we may easily arrive at conclusions opposed to common knowledge. Thus it has been calculated that, though the average declared value of home produce exported fell in the four years, 1894—1897, to 227 millions as compared with an average value of 239 millions

Prices" (1903), and reproduced as a frontispiece to the "Memoranda." It will be seen on inspection that the fall between 1873 and 1897 is roughly paralleled by the fall between 1825 (to go no further back) and 1850.

[1] Above, p. 55.

in the years 1890—1893, their estimated values at the prices of 1881 actually rose from 266 to 274.[1] But does not this calculation tend to obscure the fact that the period really was one of great depression?

Another writer has constructed a chart showing the line of exports since 1854 with their values "adjusted according to the Board of Trade index numbers," *i.e.*, "what they would have been if prices had remained the same as in 1871."[2] This, of course, shows that the total amount of commodities exported has increased (though not without large fluctuations), even though no very marked increase took place in selling prices until quite recently. But it is not easy to see what such a writer means by calling these "adjusted values" "*corrected*[3] values," or by speaking of such a chart as showing "the *true* course of an export trade." Prices are just as "correct" or "true" as quantities; and whether the value sold or the quantity sold best indicates the "state of trade" depends upon varying circumstances and cannot be decided off-hand. For instance, the

[1] The figures of Mr. Bowley in the "Westminster Review," Oct. 22, 1903.

[2] "The Free Trader," Nov. 6, 1903; published also as a supplement to "The Speaker."

[3] This misleading adjective seems to have been suggested by the prefatory note to the "Memoranda" volume, (vii.), where a reference is made to the use of index numbers "to *correct* the total value of an export trade." The criticism in the text applies equally to the use of the verb.

chart in question makes the line of "corrected values" mount rapidly upward from 1882 to 1890, with just a little dip about 1895; while the line of realised values shows a deep gulf into which it enters about 1882 and from which it does not emerge till about 1888—9. Which line gives the least inadequate impression of what was actually occurring? When we recall the prolonged depression of those years, we cannot but choose the line of realised values, in spite of its obvious inadequacy. Take this from an authoritative review of the position of affairs during 1883—4:

"There has been no recovery from the steady depression which has now lasted about two years. . . . The *extreme fall in prices appears to have taken the heart out of business men.* . . . There have, perhaps, been more complaints of small profits and of *want of employment among workmen* during the past year than there have been for many years previous. . . . There has apparently been *less surplus capital available for the employment of labour* on new works than there has been for many years," &c., &c.[1]

3. To the seven growing export trades enumerated on p. 106, should be added among minor businesses the candle manufacture, which has more than doubled its exports during the last nineteen years, and in 1903 exported goods to the value of £432,000.[2] Further consideration has

[1] "Financial and Commercial History of 1884." Supplement to the "Statist," Jan. 31, 1885. Reprinted in "Journal of the Statistical Society," xlviii. 54.

[2] Probably glue should be added to the list. Its exports in 1900, 1901, 1902, were respectively £127,000, £132,000,

shown me no reason to modify the argument as to cheap unskilled labour presented above, pp. 106—110, 192—194. It seems the obvious conclusion to be drawn from the Ricardian doctrine of the determination of trade by comparative costs—granting, what seems evidently true, that in such things as the manufacture of iron Great Britain is losing her advantage over America, and that it still possesses an unfortunate advantage over America and the Colonies in the existence of a large supply of cheap labour. Our distinguished economic theoricians have still to be heard from on this matter, and I think they will not deny that, as things are going on now, America will ere long be able to pick very much her own industries and make England do a larger share of low-grade work than before. Their diagnosis of the situation will probably be found not to differ essentially from the foregoing: the difference lies in the proposed remedy (or absence of remedy).[1]

and £136,000. The figures for earlier years are not given. For an abstract of the labour conditions in the soap, candles, glue group — including the remark "no trade unions"—see Booth, ix. (ed. 1897), p. 115.

[1] The distinguished American free-trader, Professor Taussig, in his "Tariff History of the U.S.," justly remarks that the classic economists did not sufficiently analyse the causes of differential advantage. In the last chapter of his book will be found an attempt to analyse them, with comforting results for the U.S. His judgment on particular industries may need to be modified in view of subsequent events; but the principles he applies are certainly sound ones.

4. Another consideration may be pressed on the attention of social reformers. Most of them are agreed that the insistence by public bodies upon the payment of standard rates of wages by the contractors who tender for them is one of the most hopeful means at their disposal for promoting social wellbeing. But this policy will be continually hindered—it has already been hindered in notorious instances—by the kind of international competition to which English employers are at present exposed. It will be useless to insist that the English manufacturers should pay standard rates if the orders after all go, directly or indirectly, to foreign manufacturers because their things are cheaper. And if the remedy is found in insisting that the stuff shall be of English make, even if it costs more, what is this but a defensive measure differing in form but not in principle from a defensive tariff? With the inevitable extension of municipal activity, especially in such directions as tramway service, this will be a really serious question in the near future, precisely in regard to the industry — the steel manufacture — which is most evidently menaced by foreign competition.

The subject suggests a further reflection. The first chapter of this book has been dismissed by some critics as not to the point. Granted, they said, that the older free traders did not realise the inadequacy of "individual enterprise" in certain very important matters, that does not prove the

desirability of import duties now. That is true enough: the argument was only intended to clear the way for an unbiassed consideration of present-day trade conditions. But it is significant that several of the leading advocates of fiscal inaction seem to find it difficult to oppose a preferential policy without falling back on the old-fashioned individualism. For instance, they have gone of late out of their way to condemn by implication the tendency towards municipalisation; and yet a cautious municipalisation is one of the movements most full of promise for the future. And, to crown all, they have taken to quoting Mr. Herbert Spencer. For Mr. Herbert Spencer's personal character we must all have a profound respect. But the world's judgment of Mr. Herbert Spencer's social philosophy is written in the statute book of every civilised country. From his death bed is brought the message to "go to the root of the matter" and to find "a moral basis which justifies interference with freedom in an honest market." But if this country had gone to the root of the matter in Mr. Spencer's sense and had waited to find a moral basis which would satisfy him, it would still be without its system of compulsory education.

5. As to the export of coal. The observations on this head on pp. 100—105, may be compared with the following extracts from a letter of Mr. Arthur B. Markham, Liberal M.P. for the Mansfield

Division of Notts, and a director of several coal companies :—

"I contend . . . that coal is capital, and that in the life of the present generation the thick steam coal seams in this country will be practically exhausted. On the Continent there are immense deposits of soft coal which cannot compete for steam-raising purposes with the thick steam coal seams of this country ; but so soon as we have exhausted our cheap steam coals I cannot see how it is possible the export trade in coal can be maintained.

"In Yorkshire there is no doubt a considerable area of deep coal which may last sixty to eighty years, but the deep coal proved in Nottinghamshire has, so far, given disappointing results. The Derbyshire steam coals will be practically exhausted in thirty years. The South Wales steam coalfield will also be exhausted in the life of the present generation."[1]

Mr. Thomas, indeed, in his oft-quoted paper, has urged that "more than half the coal exported is for British consumption abroad." This is no more than a rough estimate on his part, unsupported by detailed figures, although it has been frequently quoted of late as if it were a recognised fact. Taking Mr. Thomas' own figures as to coal consumption by the different classes of shipping,[2] comparing those with the figures of British mercantile and naval tonnage, and allowing for the use of a good deal of New Zealand coal on the Australian and Chinese seas, of Japanese coal on the Singapore route, of Indian coal on the P. & O.,

[1] *Times*, Oct. 26, 1903.

[2] "Coal Exports," p. 32.

and British India trade and of American coal in the Atlantic trades, the rough estimate reached would seem to be at most one-third. Moreover, it is clear that the export of coal has been growing of late more rapidly than British shipping, so that it is hardly from the shipping that the increasing demand of the future is likely to come.

Mr. Thomas further urges that the countries which can be regarded as our industrial rivals take from us only a small portion of the coal they consume (*e.g.* Germany 6 per cent.), while those that take most (Italy 93 per cent. of its consumption), can, "by no stretch of the imagination" be regarded in that light. But when we follow the coal to the parts of Germany where it is used, the percentage ceases to be so insignificant. Thus the shipbuilding yards in the Baltic, of whose competition we already have had some experience, derive 19·5 per cent. of their coal consumption from England.[1] As to Italy, what we are doing by selling coal is to supply that country with the power it needs to develop its industries, and, assisted by its high tariff, to provide itself with the textile manufactures it previously took from England.

"The cotton industry is younger than the silk, but it is developing even more rapidly. Its produce which hardly exceeded £2,000,000 in 1876 was worth £12,000,000 in 1899; it employs 80,000 operatives;

[1] Figures for 1899, in Schwarz and von Halle "Schiffbauindustrie," ii. 243.

it has almost entirely conquered the home market, and the exports increased from £1,260,000 in 1896 to £2,280,000 in 1899. The bulk of the export trade goes to South America and the Levant; but Italian prints are said to be competing successfully with English in Paris. The wool industry is the least important of the textiles, but it too shows the same expansion, more than doubling its exports between 1897 and 1899, and beginning to manufacture the finer kinds of cloth."[1]

We are not surprised, then, when we find that the export of British cotton goods to Italy fell from over a million pounds' worth in 1890 to less than £200,000 in 1902, and of woollen goods from about £868,000 to about £308,000.[2]

6. As to the pressure upon the English manufacturer of American supplies of cheap steel, it cannot be made too clear that what this country has to fear is not—for many years to come—prosperity in the American steel business, but depression. The satisfaction which is often nowadays expressed in England at the rumoured distress of this, that or the other American trust is precisely the wrong conclusion to draw. So long as prosperity reigns in America, the trusts will be content with the American market, and they will try to keep up prices to a point which will furnish dividends on their inflated capitalisation. But when depression

[1] King and Okey, "Italy To-Day" (1901), p. 144.

[2] Board of Trade "Memoranda" (Cd. 1761), p. 56, gives all the figures from 1890 to 1902, and these only. The decline in woollen goods was, to some very slight extent, compensated for by an increase in the export of wool waste,

sets in, and the home demand begins to fall below the productive capacity, they will inevitably—for reasons explained in earlier chapters—seek to relieve themselves by recourse to foreign markets, even at exceedingly low prices: and if their troubles increase so that they have to be re-organised, the re-organisation will certainly involve the wiping out of some of the nominal stock, so that they will no longer be under so heavy an obligation to keep up prices. This is well-known to every man who understands the American business situation. Hitherto the existence and policy of the U. S. Steel Corporation have been the safeguards of the English steel manufacturer. But this cannot continue:—

"The preponderance of the Steel Corporation I consider very fortunate for the British and European iron trade. The Steel Corporation, with its heavy capitalisation, will, unquestionably, use every resource to maintain prices at somewhere near their present level, at which most British works can undersell the American product, both at home and, what is more important, in colonial markets. America is at present developing at an enormous rate. . . . The old law of the wave-like advance and retardation of human progress can, however, not be set aside by the American people any more than by the nations who, before their time, have led the way. Such an activity, and such facilities for obtaining money, and engaging in new enterprises, as have been found in America during the past year cannot permanently continue. Even the great steadying influence of the Trusts will not suffice very long to hold off the day of re-adjustment and contraction. When this day comes there will be a shrinkage in values and a tightness of

money, which will bring down all prices to a point but little above cost. Most people in America are sanguine that the present state of affairs will continue at least during the remainder of the current year, but they are looking forward with some uneasiness to the coming Presidential election of 1904."[1]

What look like premonitions of the approaching storm have begun to be heard. The disposal of a hundred thousand tons or so of American steel in England has already created what the trade reports in the newspapers call a "scare." It is not uncommon now to find in the same paper a strong free trade article in one column, and in another a trade report which warns us that "we are face to face with a period of competition such as we have never known before."[2] We may have an opportunity of deciding whether we care to keep our steel manufacture somewhat earlier than we had anticipated.

The present controversy took its rise in a proposal made to this country by the self-governing Colonies; and it has been argued in the foregoing chapters (pp. 208, 209) that if the offer is rejected the Colonies (especially Canada) will be very likely to turn elsewhere. It has, however, been asked indignantly by a distinguished English politician,

[1] From a paper by the well-known steel authority, Mr. Axel Sahlin, of Millom, Cumberland, at the Conference of the British Iron Trade Association, March, 1903, "Report," p. 15.

[2] See Trade Review of the Week in *Birmingham Daily Post* for Nov. 7, 1903.

"whether those who believe in the loyalty and good will of the Colonies to this country think for a moment that they would give us worse terms in their markets than they give other nations." But this is precisely what they would have to do if they were driven to it. It is odd how short are the memories of politicians. During the years 1887—1891 there was a strong movement in Canada in favour of "Commercial Union" with the United States. The leaders of this movement did not hesitate to propose that Canada should agree to set up the same tariff barriers as the United States against all other countries, including the United Kingdom, in return for greater freedom of trade with the land to the South.[1] Sir Richard Cartwright, who had held high office in a previous administration, left no room for doubt on this head in proposing a motion in the House of Commons on March 14, 1888:—

"It has been made a grave ground, it has been attempted to be set up as an insuperable ground, of objection, that, when you propose to enter into a treaty for unrestricted trade with the United States, you must thereby, of necessity, discriminate against English manufactures and the manufactures of all other countries except the United States. Now, that is true. I admit that. More than that, I will admit that, *primâ facie*, what we propose to-day is a very unusual thing. I will admit — I am in nowise

[1] This proposal, coupled with attempts to prove that it would not, after all, injure Great Britain, will be found up and down the volume of collected papers published as a "Handbook of Commercial Union," Toronto, 1888.

disposed to shrink from any argument which can be fairly advanced — I admit frankly that, when a semi-dependent State, when a colony proposes in one breath to tax the goods of the parent State and admit the goods of a foreign State free, while at the same time the parent State admits our goods and the goods of other countries free, and the foreign State taxes those goods very heavily, it is a very unusual thing indeed."[1]

Fortunately Sir Richard Cartwright now finds that there is another way of approximating to the ideal of free commercial intercourse, which he has always so ably maintained, besides absorption in the protective system of the great Republic. His present support of a policy which will promote a larger trade within the Empire is a most significant sign of the times. Nor do I venture to criticise his attitude fifteen years ago. Considering the position at that time of English public opinion, a Canadian statesman might well despair of closer commercial union with the mother country. The passage is quoted only to show what are the logical consequences of the two policies possible to Canada, for the benefit of those English politicians, and they are numerous, who have no "realising sense" of the position of the Dominion.

Mr. Goldwin Smith, the most distinguished literary representative of the movement, drew the following ingenious and yet, in a sense, true distinction :—

"The discrimination would *not* be *directed against* British commerce; it would be *merely a necessity*

[1] "Handbook," p. 35.

incidental to an arrangement for the benefit of Canada with the United States." [1]

And he was wont to add, with less clear-sightedness:—

"It is not against England that we should discriminate, but only against a very limited number of exporting houses." [2]

The liberal party, which had been for many years in opposition, adopted, not "Commercial Union," but "Unrestricted Reciprocity" with the United States, as the chief plank in their platform in the election of 1891. Sir John Macdonald, then conservative premier, raised the cry that Unrestricted Reciprocity would involve discrimination against the mother country, and would lead to annexation to the United States; and it was largely owing to the feeling aroused thereby that he was restored to power. The liberal leaders on the other hand tried to defend themselves against the charge that their proposal involved discrimination. I do not feel called upon to discharge the delicate historical office of analysing the psychology of that moment: the election addresses and speeches of both parties are extant, and may be easily consulted.[3] I have already quoted Mr. Edward Blake's account of the matter (p. 209).

[1] "Canada and the Canadian Question" (1891), p. 295.

[2] "Handbook," p. xxviii.

[3] The election addresses of Sir John Macdonald and of the Hon. Wilfrid Laurier (as he was then) are printed in the "Economic Review" for April, 1891.

An English reviewer of the first edition of this book, writing in one of the chief organs of free trade opinion, has had the courage to argue that

"The destruction of the barrier (between Canada and the United States) need not involve the abandonment by Canada of her place in the British Empire. Canada commercially joined to the United States, and politically united to the British Empire, would certainly be somewhat of an anomaly. But," &c., &c.

And certainly there were many Canadians who sincerely believed the same in 1888—1891. But we have again and again to distinguish in history between what people think and what their acts ultimately involve: and, again, I must ask the reader to study the quiet and careful utterance of Mr. Blake (p. 209).

It is impossible to present an argument like this without running a grave risk of misapprehension; and I should greatly regret to wound the susceptibilities of my Canadian friends and old pupils. I know how many of them are jealous of their reputation for "loyalty"; I know that many of them, on the other hand, cherish the aspiration towards independence. The "annexationist" party proper has never been large, and just now it is almost non-existent. If Great Britain refuses to grant a preference to Canadian agricultural products, I do not anticipate any rapid and dramatic emergence of "disloyalty." But what I do anticipate in such a case is that the North West, as it gradually fills up, will demand that somehow better markets shall be opened to it; that, if

it cannot find them in England, it will compel the politicians to turn to the United States: and that, under different names, and under different circumstances, the movement for Commercial Union will once more make its appearance, and this time be much more formidable. Canada will by that time probably have gained the right of independent negotiation, which some of its statesmen are already demanding. The Canadian envoys would doubtless carefully guard their political liberty; and the appearance of political union with the British Empire would probably be sedulously maintained. But really Canada would, under these circumstances, tend to become more and more, commercially, financially, and socially, a dependency of the United States; and it will then matter but little what its nominal constitution may be.

There is one final point I am anxious to impress upon the reader. It is this: There is no true intellectual unity in the ranks of the advocates of the policy of inaction. On the platform the line that is naturally the most effective is that everything is going on well, and that there is no occasion for alarm. But the more thoughtful among them do not in their heart of hearts think so; their mental attitude is, in truth, so far as this island is concerned, one of profound pessimism. Their belief is that this little island outstripped other countries because it was the first to utilise its

resources in coal and iron: that now our supplies are being rapidly exhausted while America, at any rate, has vast reserves; and that there is nothing for it for England but to sink back to a comparatively insignificant place in the world's affairs.

Let me cite first the opinion of a man highly esteemed by many of us, the late William Clarke:—

"Nations, like men, have their exits and their entrances. England was the first to develope to mighty proportions 'the great industry'; she will be the first to lose it. Not, of course, at once; not equally in every branch; but it will surely pass to other lands which will carry it to proportions scarcely dreamt of yet. . . . We, in this island country, shall retire from the race.

"England is destined to be the pleasure ground of the English speaking peoples. . . . The mass of English people will more and more tend to be the ministers in some way of this new rich class. . . . This does not necessarily mean that the great mass of English people will be relegated to an entirely servile class; but it does mean unquestionably that conditions will be established unfavourable to the growth of democracy."[1]

Turn now from the man of letters to the man of business—Mr. Thomas, whose statistical researches have properly played so prominent a part in the present controversy. His attitude is one of resigned despair:—

"Absolute exhaustion will not take place, but in the opinion of competent mining authorities the cream

[1] "The Social Future of England" in the "Contemporary Review," Dec., 1900.

of the South Wales coalfield will have been skimmed in another fifty years. Just conceive for a moment the position were exhaustion even approached: instead of exporting 40,000,000 tons we would have to import 150,000,000 tons. Imagine the bulk of the tonnage clearing in ballast, the cost of coal—the source of power—several times that obtaining in the United States, what prospect of competing in neutral markets, what hope indeed of producing manufactured articles to pay for the coal? Our present pre-eminence depends upon cheap fuel, the first symptom of declining supremacy will be the higher normal cost of our own production. Is there yet any evidence of the symptom? Can that be the meaning of *the approach to the stationary in our exports*, and in the consumption of coal per head of the population? There has been a very remarkable alteration in the relative price of British and American coal at the pit's mouth during the last fifteen or twenty years. 'In 1883 the price of coal,' according to the American official report, 'in the United States was 6s. 5½*d.*, as compared with the price of 5s. 7½*d.* in the United Kingdom, whereas in 1901 the price in the United States sank back to 5s. 6¾*d.* while that of British coal had risen to 9s. 4¼*d.*'

"What of the gloomy picture presented by the prospect when, with coal exhausted, furnace fires do'uted, the wheels of industry stopped, and our factories silent, we have no commodity to give in exchange for the food supply we require from abroad to maintain anything like our existing population in its present standard of comfort, and which it would be impossible under any conceivable improvement in husbandry to extract from our native soil.

"Ah, says your cheery optimist—the Prime Minister is one of them—long before our coal is exhausted, human ingenuity will have discovered some other source of motive power. That may be, though there is no immediate sign of it, but—and this, as Jevons pointed out, is the serious question for this country—

will the new power, if, and when discovered, be such as to give Great Britain the pre-eminence it now enjoys in the matter of coal?"

"Should it prove that this relative retrogression on our part is permanent, and that we are being overtaken in the international race, it . . . will prove to be due, I think, to circumstances largely beyond human control, and over which man disquieteth himself in vain."[1]

And, finally, from a master of the old economics, Mr. Leonard Courtney, comes precisely the same prophecy. With two or three sentences from his pen this series of excerpts may well close:—

"The United States, to which Jevons pointed as our inevitable competitor, now produces coal in as great abundance as Great Britain, and at a cheaper price, while in respect of iron the trade of the republic is equal to our own, and in the matter of steel is . . . twice as great. The people of this island have not realised the changes that have supervened, . . . but it is not the less clear that we have had our warnings. The first sharp stroke came in 1873, and if subsequent attacks have not been so marked, their effect is too evident in *the tell-tale figures of our trade.* The most careless, when brought face to face with these, must see *how idle is the optimism which men of repute appear to think good enough for public platforms.*"[2]

The struggle to create an effective British Empire is, at bottom, an attempt to counteract, by human foresight, the working of forces, which, left to

[1] "Coal Exports," pp. 23, 19, 13.

[2] "Jevons's Coal Question: Thirty Years After." Inaugural Address as President of the Royal Statistical Society, Dec. 14, 1897, p. 19.

themselves, involve the decadence of this country. Even if the industrial life of the country is bound to undergo profound changes in the future as in the past, that is no reason why we should be in a hurry to bring on the exhaustion of our present resources by an increasing dependence on the export of coal. Even if, for some unavoidable reasons, the United States can manufacture certain commodities more cheaply than we can, that is no reason why we should allow our own cost of production to further increase by the narrowing of our market with its inevitable effect on the economies of manufacture. Even if Great Britain is to lose some of its trades, it will be better to lose them to other parts of our Empire between whose several members there shall be a vitalising movement of thought and activity, than to become a stagnant backwater left on one side by the main currents of human endeavour. No man can be absolutely sure that a preferential system will secure the unity of the Empire; but to me, at any rate, it presents itself as the only direction in which there is a fighting chance. It may be that the decline of this people and the loss of its colonies are inevitable. But until we have tried soberly to build up a preferential system we cannot know this; and meanwhile the preferential movement is surely—as one of my friends among American economists has characterised it—"good Economics and good Politics."

INDEX.

Advantages, Natural, 26, 39, 69, 73, 99, 110, 112, 194, 247
Agricultural Labourers' Wages, 183.
America. *See* United States
"Anglo-Saxondom," 201
Anti-Corn Law League, 11, 41 *seq.*, 47
Antwerp, 219, 223, 230
Apparel, Exports, 106, 107, 108
Ashley, Lord (Shaftesbury), 10, 11
"Ausfahrvergütungen," 122
Australia, 155, 156, n., 157, 158, 159, 205, 229 *seq.*
Automatic Machinery, 79

Bagehot, 34, 126, 235
Bakers' Practice, 180
Balance of Trade, 22, 211
Banking, 236
Bars, Steel, 118
Bastiat, 6, 195
Beach, Sir Michael Hicks, 148
Birmingham, 75
Blake, Mr. Edward, 209, 258
Blyth, Sir James, 161, 180
Board of Trade, 134, 212, n.
"Bonifications," 122
Bonus on Exports, 122 *seq.*
Booth, Mr. Charles, 109, 192
Bounties, 122 *seq.*, 126, 161, 239
Bowley, Mr., 61, 107, n., 186, 242, 245, n.
Brazil, 204
Bread Prices, 177 *seq.*
Bremen Cotton Exchange, 228
Brentano, Professor, 32
Bright, 9, 25, 42, 119
Bryce, Mr. James, 162
Budgets, Workmen's, 187

Caird, 50
Canada, 55, 117, 145, 148, 151, 154, 155, 156, n., 157, 158, 159, 205 *seq.*, 255 *seq.*
Candles, 246
Caoutchouc, Export of Manufactures, 106, 107
Imports, 233
Carey, 74
Carnegie, Mr., 71, n., 76, 79, 84, 191
Carnegie Steel Company, 94, 190
Carrying Trade, 224 *seq.*, 237, 239
"Cartels," 120 *seq.*
Cartwright, Sir Richard, 255
Chartists, 47
Cheap Labour, 109, 192 *seq.*, 246
China, 43, 71, 72, 76, 81, 196
Clark, William, 260
Clay, Exports, 105
Coal, 55
Prices, 95, 261
Export of, 100, 249 *seq.*
Cobden, 5, 8, 11, 42, 44, 47 *seq.*, 51, 69, 182, 184, 196, 199, 204
Collective Bargaining, 14, 191

Colonial Wares, 234
Colonies, 94; 139 *seq.*; 195
Combination of Capitalists, 14, 127 *seq.*
"Commercial Union," 209, 255
Conference of Colonial Premiers, 146
Commerce, Faculties of, 136
Commerce, Ministry of, 135
Conrad, Professor, 170, 175
Consular Service, 137, 164
Consumer, 115, 116, 117, 128
Continuous Processes, 84
Cooper, Thomas, 47
Co-operative Societies, Prices 178
Cordage and Twine, Exports, 106, 108
Corn, Import of, 37, 38
Price of, 46 *seq.*
Corn Laws, 1, 40, 147
Cosmopolitanism, 1, 36
Cost of Production, 85, 88
Cotton Exports, 60 *seq.*
Yarn, 62
Foreign Manufacture, 72
Of U. S. 80
To Italy, 252
Cotton Markets, 228
Courtney, Mr. Leonard, 262
Cunard Subsidy, 162
Cutlery and Hardware Exports, 82
Cycles of Trade, 240

Dade, Dr., 176
Danzig Rye Prices, 176
Davidson, Professor, 152
Defence, Industrial, 114 *seq.*, 132
Defence, National, 36, 118
Diffusion of Industry, 75 *seq.*
Diversification of Industry, 74, 159
Divertion of Industry, 23, 78
Division of Labour, 85
Dooley, Mr., 201
Dumping, 70, 91 *seq.*, 94, 96, 118, 120
Düsseldorf, 122

Eastern Trade, 220
Economies of Production, 85
Economists, 15
"Economist, The," 125, 221, 235
Edgeworth, Professor, 168, 170
Egypt, 142
Employment, 44
Engineering Trades, 118
Entrepôt, England as, 224
Executive, Necessary Powers, 133, 134
Export to Relieve Home Market, 86, 114
Policy of German "Cartels," 121 *seq.*, 129
Exports, Value of, 53 *seq.*, 102
Per Head, 59 *seq.*, 102
New, 100 *seq.*
Growing, 106 *seq.*
Balance, 211
1872, 240

Fabian Society, 163
Factory Legislation, 8, 10, 12, 13, 14
Faculties of Commerce, 136
Fawcett, Professor, 243
"Finished Goods," 128
Fixed Capital, Effect of, 87
Fixed Charges, 87, 96
Forecast of Future, 111
France, Economists in, 15
British Investments in, 77
Francke, Dr., 198
Free Imports, 21 *seq.*
Freedom of Industry, 19
Freedom of Trade, 18, 23 *seq.*, 55, 149
Furniture, Exports, 106, 107

Gates, Mr., 97
Germany:
Economists in, 15, 30

Germany—*continued.*
Manufactures, 76, 78
Metallurgical Industries, 120
Export Prices, 131
Rye in, 174
Future, 198
Germany and England, 202
And Canada, 203
Coal, 251
Giffen, Sir Robert, 211 *seq.*, 222, 239
Glasgow, 234
Glue, 246, n.
Guthrie, Mr., 94

Hadley, President, 87
Haldane, Mr., 162
Hamburg, 219, 223, 233, 234
"Handelshochschule" of Cologne, 31
Of Frankfort, 138
Hardware, 82, 125
Helm, Mr., 72, n.
Hemp, 232
"High Farming," 50
Hill, Mr Norman, 216, 222, n.
Historical School of Economists, 19, 30
Holland, 36, 225, 226, n.
Home Market, 86, 92
Hong-Kong, 142
Hume, David, 22
Hume, Joseph, 9, 44 *seq.*

Import and Export Statistics, 140 *seq.*
Import Duties, 131
Incidence of Corn Duties, 168 *seq.*
Independent Labour Party, 166
India, 71, 72, 73, 76, 187
Individualism, 1, 14, 18, 127, 249
Industrialisation, 158
Infant Industries, 24, 78
Integration of Business, 84, 191
International Trade, Ricardian Doctrine, 73, 99, 112, 247
Investments, Foreign, 77, 112, 212, n., 213 *seq.*
Iron and Steel Exports, 65
Imports, 124
Export Prices, 128
Italy, 251

Japan, 72, 76
Jevons, 16, 241, 243, 261, 262
Jute Exports, 67
Mills of Calcutta, 73

Keen, Mr. Arthur, 84
Kentucky, 81
Krapotkin, Prince, 76
Krupp Works, 190

Labour Commission, 13
Labour Question, 158
Laissez-faire, 17, 118
Lancashire, 42, 72, 80
Laurier, Sir Wilfrid, 146, 149, 257, n.
"Law of Increasing Returns," 83, 263
Lexis, Professor, 174
Linen exports, 66
List, 23, 25, 30, 71
"Little England," 200
Liverpool, 222 *seq.*, 228, 233
Loaf, cheap and big, 42, 46 *seq.*
London, 109, 192, *seq.*, 229, 231, 232, 235
Lowell, 82

Macdonald, Sir John, 257
Machinery, exportation of, 75, *seq.*
Malthus, 41
Manchester Party, 52, 69
Manitoba, 206
Manufactures, Foreign, 45
"Manufacturing Interest," 10
Markets, wider, 42
Markham, Mr. 249
Marriage Rate, 186

Martineau, Miss, 10, 11
Masterman, Mr. C. F. G., 194
Mercantile System, 21
Mesopotamia, 204
Midlands, 124
Mill, John Stuart, 17, 24 *seq.*, 39, 69
Millers' Practice, 180
Miners, 116
Möller, Dr., 129
Money Market, 235
Morley, Mr. John, 11
Municipalization, 13, 249

Nature, 2
Navigation Acts, 35, 238
Naval Expansion, 195
"Necessary Trades," 165
Negotiation, Tariffs for, 29, 132
New York, 236
New Zealand, 155, 156
Nicholson, Professor, 170, 214
North-West Territories, 207
Nova Scotia, 158

Oil and Floor Cloth, Exports, 106, 107
Oldenberg, Professor, 70, n.
"Open Door," 197
"Organized Labour," 116

Pauperism, 184
"Peace and Retrenchment," 195
Peel, 42
Sliding Scale, 182
Petition of London Merchants, 39
Petition of Manchester Merchants, 44
Philippines, 232
Pig-iron, Prices, 90
In Germany, 121
Poland, 26
Population, 112
Ports, British, 216
Foreign, 217
Preferential Policy, 145 *seq.*
Of Canada, 151
Prices for Export, 92, 127
"Primary Industries," 118
Pringsheim, Dr., 226
Productive Powers, 26
Protection, 18, 21, 23 *seq.*, 30, 40

Raffalovich, M., 120, 237, n
Railroad Business, 88
Rails, Steel, 90. 133
Rates, Incidence of, 188
Rathgen, Professor, 141, 203
Reciprocity, 131, 147
Reform, Social, 189
Reichstag, Debates in, 129
Rentiers, 113
Retaliation, 28, 132
Revenue Tariff, 149
Rhodes, Cecil, 205
Ricardo, 39, 41, 48, 73, 87, 88, 99, 247
Roscher, Professor, 226
Rousiers, M. de, 120
Russia, 76, 78, 104, 130, 174, 198, 200
Rye, Prices in Germany, 173 *seq.*

Sahlin, Mr. Axel, 254, n.
Sailors, 222
Schmoller, Professor, 19, 30
Schumacher, Professor, 31, 220
Schwab, Mr., 93
Seligman, Professor, 169
Sering, Professor, 51
Shaw, Mr. Bernard, 163
Shipbuilding, 112, 118
Shipping Business, 215 *seq.*
Ships, New, 54
Siam, 220
Sidgwick, Professor, 16
Silk, 232
Skill, Exportation of, 75, 79
Skilled Labour, 79
Slaughter Prices, 86
Slops, Exports, 107
Smith, Adam, 3 *seq.*, 20. 21 *seq.*, 32 *seq.*, 69, 78, 87, 114, 117 214
"Smithianism," 5

Smith, Mr. Goldwin, 256
Snowden, Mr. Philip, 166
Soap, Exports, 107
Socialism, 18, 163 *seq.*
South Carolina, 81
Southern States of America, 80 *seq.*
Spencer, Mr. Herbert, 188, 249
Spirits, Exports, 110, 112
Staffordshire, 124
Standard Rates of Wages, 248
Staple Industries, 67 *seq.*, 117, 119
State Control, 1 *seq.*, 11, 19
"Static" Conception, 26
Steamship Subsidies, 238
Steel, 90, 117, 118, 124, 248
Straits Settlements, 142
Suez Canal, 227
Sugar Convention, 126, 130

Tailoring Trade, 108
Tariff, American, 96; Defensive, 132 *seq.*
Taussig, Professor, 247, n.
Taxation, Indirect, 149
Technical Education, 160.
Tea, 187, 231
Textiles, 60 *seq.*, 152
Thomas, Mr. D. A., 100, 250 *seq.*, 260
Tobacco Manufactured in bond, 53
Tooke, 40
Torrens, 39
Tory Party, 21
Trade Unions, 13, 192
Transferability of Labour, 34, 117
Transferability of Capital, 79
Trusts, 92, 120, 126, 127 *seq.*, 252

United States, 77, 80, 85, 98, 112, 117, 131, 152, 155, 161, 171, 176, 198, 200, 207, 252.
United States Steel Corporation, 94, 117, 253
"Unrestricted Reciprocity," 257

Wages and Food Prices, 48 *seq.*; Maximum and Minimum, 116
Wages, Boards, 189; standard, 248.
Wagner, Professor, 32, 68, n., 141, 142, 143.
Warrant Stores, 234
Webb, Mr. Sidney, 182
Westphalia, 122, 128
Wheat Exports of U.S., 171; Prices, 178, 185
Whig Party, 21
Wiedenfeld, Dr. 224, n., 233, 234
Wire, 97, 123, 129, 133
Witte, M. de, 130
Wolverhampton, 69
Wool, Distribution of, 229 *seq.*
World-Empires, 198
Woollen and Worsted Exports, 65, *seq.*

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